IN THE

Supreme Court of the United States

October Term 1941

No. 723

UNITED STATES OF AMERICA
Appellant

against

MASONITE CORPORATION, *et al.*
Appellees

APPEAL FROM THE DISTRICT COURT OF THE UNITED STATES
FOR THE SOUTHERN DISTRICT OF NEW YORK

BRIEF FOR MASONITE CORPORATION, APPELLEE

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This is an appeal direct to this Court from a final judgment of the District Court for the Southern District of New York entered September 27, 1941 (R. 884).

The judgment dismissed the plaintiff's Complaint on the merits.

The Opinion of the District Court (R. 843-853) is reported in 40 Fed. Supp. 852. Its Findings of Fact and Conclusions of Law are at R. 870-884.

Statute Involved

The statutes involved are the Sherman Act, Sections 1 and 2 (R. 8) and the Patent Act, 35 U. S. C., Section 40.

Question Presented

The Findings of Fact made by the Trial Court (R. 870-883) fully support its Conclusions of Law (R. 884) and the judgment based thereon (R. 884). Hence, the question presented is whether there are legal grounds requiring that such judgment be disturbed. See Rule 52 of U. S. Rules of Civil Procedure.

Gravamen of the Bill of Complaint

The charge in the Bill of Complaint is that on October 10, 1933, the defendants Masonite and Celotex entered into a conspiracy in violation of the Sherman Act to monopolize and restrain trade in hardboard and in products in competition with hardboard (par. 37, R. 8); that this conspiracy so begun was "from time to time joined" by the other defendants (par. 38, R. 8); and that this conspiracy had the "purposes" set forth in par. 41 (R. 9) and the "effects" set forth in par. 47 (R. 10).

This charge, as the Complaint itself shows, is a characterization of a written agreement said in par. 43 (R. 9) to have been made between the defendants Masonite and Celotex on October 10, 1933, and of subsequent written agreements made from time to time up to and including the year 1937 with the other defendants respectively.

The Complaint prays that these agreements be annulled and enjoined (R. 27).

Decision by the Trial Court

This decision is embodied in Findings of Fact and Conclusions of Law (R. 870-884) and in an Opinion (R. 844-853).

It is to the effect that no such combination or conspiracy as is alleged in the Complaint occurred; that defendant Masonite was the owner of the basic patent on an

artificial product and on the process for manufacturing it; that this product as made by Masonite went in the trade by the artificial name of "hardboard"; that the validity and scope of this patent was upheld by the United States Circuit Court of Appeals for the Third Circuit in 66 Fed. (2d) 451, in an infringement suit by Masonite against Celotex Company; that thereafter on October 10, 1933, the Receiver of Celotex Company, pursuant to the order of the United States District Court, made the aforesaid written agreement with Masonite whereby he was designated as *del credere* factor to sell Masonite's patented products; and that thereafter the various other defendants herein were also designated as *del credere* factors pursuant to similar written agreements with Masonite.

The Trial Court further found that these agreements did not have the purpose or effect of restraining or monopolizing trade, but were merely the lawful exercise of Masonite's constitutional and statutory rights as the owner of this basic patent; that the actual effect of these agreements was to greatly increase the distribution of hardboard without increase in price; that hardboard was at all times in competition with many other natural and artificial products capable of use for wall or paneling purposes; that these agreements in no way restrained competition in any of such other products; and that the prices at which hardboard was sold by Masonite and its agents were not fixed by any agreement between them, but solely by Masonite as patent owner.

The Trial Court further found that Masonite is the sole and exclusive manufacturer of its patented product.

Summary of Appellee's Claims

This case was tried on eleven stipulations of fact, on certain agreements that certain persons if called by the defendants as witnesses would give certain testimony (as to which the Appellant offered no contradiction), and on

the testimony of certain other witnesses given in open court. On the Record so made, this Appellee makes the following claims:

(1) Each and all of the Findings of Fact are fully supported by the evidence, and any contrary Findings would be clearly erroneous. (See pp. 19-28, *post.*)

(2) The Appellant wholly failed to prove the case charged in its Bill of Complaint and wholly failed to prove the alleged purposes (par. 41, R. 9) and the alleged effects (par. 47, R. 10) which the Complaint ascribed to the so-called combination. On the contrary, the conspiracy therein charged was completely disproven. (See pp. 31-36, *post.*)

(3) Masonite, as the owner of the basic patent covering the product and the process of manufacture, had a constitutional and statutory right to retain to itself the exclusive manufacture of the product; to sell the product both directly and through agents at prices set by itself; and to reserve to itself the exclusive right to sell directly to certain categories of trade. (See pp. 36-39, 71-83, *post.*)

(4) The sole restraint on the manufacture or sale of any infringing product was inherent in Masonite's patent monopoly of "hardboard", and in the decision of the Circuit Court of Appeals for the Third Circuit (66 Fed. [2d] 451) sustaining the validity and scope of this basic patent. (See pp. 36-39, 73-75, *post.*)

(5) Any agreement made with Masonite by other parties based on the validity and exclusiveness of this patent as to "hardboard" was entirely lawful; and agreements made by Masonite in the exercise of its patent rights covering the original sale of this patented product through those willing to act as its agents or factors could not be violations of the Sherman Act. (See pp. 39-75, *post.*)

(6) The agreements made by Masonite were lawful both under the Patent Act and under the common law principles of *del credere* agency or factorage. (See pp. 39-48, 83-86, *post.*)

(7) These agreements were also lawful under the doctrine of *United States* v. *General Electric Co.*, 272 U. S. 476, which is an authority *à fortiori*. This decision is sound and should not be overruled. (See pp. 86-100, *post.*)

(8) The assumption underlying the Appellant's brief that the Sherman Act nullifies or truncates the constitutional and statutory rights granted by the Patent Act, is not admissible and has been repeatedly repudiated by this Court. (See pp. 94-100, *post.*)

(9) The superseding agreements made by Masonite with the other defendants in 1941 for the proper purpose of endeavoring to remove controversy with the Anti-Trust Division of the Department of Justice, are valid. Those agreements have properly been found by the Trial Court to have been made in good faith, to be lawful in purpose and effect, and to represent the exclusive understanding between Masonite and the other defendants at the time of the trial. They afford an additional and conclusive reason why this judgment should be affirmed. (See pp. 100-107, *post.*)

STATEMENT OF THE CASE

Introductory

Appellant's Statement of Facts contains so many inaccuracies, is so interwoven with argumentative matter and unwarranted inferences and conclusions, and so completely ignores the Findings of Fact made by the Trial Court, that this Appellee cannot accept it as a fair presentation to this Court of the essential facts of the case. For examples of vital considerations ignored or slighted by Appellant's Brief and Statement of Facts, see pages 28-31, *post*.

I

The Facts

1. *Description of Masonite, Its Business and Patents.* The Appellee, Masonite Corporation (hereinafter called "Masonite"), was organized in 1925 by William H. Mason and others, and in 1926 began to engage in the development, manufacture and distribution of "hardboard" (R. 174, 844, Findings, Par. 2, R. 871), which is an artificial term widely understood to mean the particular product manufactured by Masonite under its basic U. S. Patent No. 1,663,505 issued on March 20, 1928, to Masonite as assignee of Mason, and under other fundamental product and process patents assigned by Mason as inventor to Masonite (R. 174, 178, Findings, Par. 2, R. 871). Of the 50 patents owned by Masonite, 41 were the sole inventions of Mason, 1 was a joint invention of Mason, 4 were inventions of Masonite's employees, and only 4 were acquired inventions (R. 174-5).

Hardboard is conceded to be in competition with many other building materials. The dollar volume of its sales is estimated to amount to less than 1% of sales of all build-

ing materials (R. 178, 179, Findings, Par. 5, R. 871). It is made out of wood chips disintegrated by live steam under pressure, and thereafter pressed in a hydraulic press with the binding aid of the natural lignins into an artificial board of great density and strength and highly impervious to water (R. 178, 617-18, Finding 3, R. 871). These products are sold by Masonite under certain trade names, including "Masonite," "Quartrboard," "Presdwood" and "Temprtile" (R. 179).

Masonite also manufactures and sells fiber structural insulation board,—a fiber board, soft in quality, without great tensile strength, pervious to water, and produced in different ways by various manufacturers. Masonite has never supplied any of its insulation board products to any of the other Appellees. Except as insulation board is sold and shipped with hardboard in mixed carlots to obtain the benefit of the carlot freight rate, the sale thereof has not been brought under discussion in this case (R. 174, 184, 499, Findings, Par. 2, R. 871).

2. *Other Appellees and Their Business.* Each of the other Appellees is engaged in national distribution of many and varied building materials to the wholesale and retail dealer trade. With the exception of two companies, all of them are manufacturers of various building materials many of which compete with certain uses of hardboard (R. 175-7, 179, Findings 5 and 6, R. 872-873).

3. *The Masonite-Celotex Patent Litigation.* The Celotex Company, which over a period of years had developed and obtained wide acceptance of insulation board in the building industry (R. 179, 180), had undertaken to make out of bagasse (a waste product of sugar cane) an artificial board which it began marketing as "Celotex hard panel board" (R. 180, Finding 9, R. 873). On April 2, 1931, Masonite instituted suit against The Celotex Company in the U. S. District Court for the District of Delaware, alleging infringement of Masonite's Patent No. 1,663,505

and for an injunction and an accounting for profits and damages (R. 182, Findings, Par. 10, R. 874).

While that suit was pending, a petition was filed in the same Court for the appointment of Receivers for The Celotex Company. These Receivers thereafter conducted the business of The Celotex Company and were directed to, and did, assume the defense of the patent litigation (R. 181, 182, Findings, Par. 10, R. 874).

This patent litigation was bitterly contested and finally resulted in a decision by the Circuit Court of Appeals for the Third Circuit on July 6, 1933, holding said Patent No. 1,663,505 valid and six of its claims infringed. *Masonite Corporation* v. *The Celotex Company*, 66 F. (2d) 451 (R. 183, Findings, Par. 10, R. 874). The Receivers applied for a re-hearing which was denied by the Circuit Court of Appeals on August 16, 1933 (R. 183). See final decree on mandate (R. 211-13).

4. *Negotiations for the Original Agency Agreement with Receivers for The Celotex Company.* Following the denial of the petition for re-hearing, and about September 12, 1933, the Receivers for The Celotex Company filed a petition in this Court for a writ of certiorari (R. 183).

At the time of the C. C. A. decision the financial condition of both companies was exceedingly precarious. The Celotex Company was in receivership and, unless the petition for writ of certiorari should be granted and the decision of the Circuit Court of Appeals reversed, the Receivers faced a large claim by Masonite for damages and profits (R. 573, Findings, Par. 11, R. 874). Masonite's credit was seriously impaired, its manufacturing operations were almost at a standstill, and it had reached a financial condition where its preferred stock had three years' dividends in arrears, its receivables were all pledged, and it was obliged to borrow money on the individual credit of its directors to meet payrolls (R. 485, 674, Findings, Par. 12, R. 874). It had only 40 salesmen (R. 673).

Masonite now had an adjudicated patent, but it lacked national distribution and dealer outlets and badly needed that distribution in order to achieve economic production (R. 184, 482, 491, 512, 675, Findings, Par. 12, R. 874). The Celotex Company had dealer outlets and, having been stopped from producing its hard panel board by the outcome of the patent suit, needed Masonite's hardboard to preserve and complete its line (R. 568, 595, 678).

Indeed, these grave difficulties then confronting both Masonite and Celotex are conceded in the Stipulation of Facts (R. 181, Par. 31; R. 184, Par. 32). To quote from Par. 32 (R. 184), which is enlarged upon in the testimony of Masonite's president (R. 675):

> "On October 10, 1933, when the petition of said Receivers for certiorari was withdrawn, Masonite's sales outlets were limited in number. The patent litigation had been expensive and Masonite had been forced to borrow money from the banks on the credit of its directors as endorsers. * * * The building industry is a difficult industry into which to introduce new products, and to get a broad distribution of a new building product requires trained engineering and sales forces and contacts with architects, engineers, retail lumber dealers and contractors."

Accordingly, following the Circuit Court of Appeals decision, Masonite opened negotiations with The Celotex Company Receivers looking to a settlement of the litigation and to the obtaining of the benefit of the dealer distribution controlled by The Celotex Company (R. 484, 486, 675, Findings, Par. 12, R. 874, 875).

Concerning the urgent need of both parties at that time for some arrangement, even Appellant's trial counsel conceded in his summation (R. 734):

> "As I said a moment ago, I have no doubt about the commercial necessity of some kind of an arrangement."

The Appellant now attempts to argue that Masonite was motivated by fear that a writ of certiorari would be granted and a reversal ensue in this Court. Such a claim is utterly immaterial and irrelevant; but the fact also is that the record negatives it.*

After negotiations, an agreement was reached between Masonite and said Receivers, the terms of which are embodied in the original "Agency Agreement and License Option" dated October 10, 1933, and a Supplemental Agreement of the same date, between Masonite and Hobart P. Young, Receiver of The Celotex Company (R. 486-489, 572-574, 576-577; Exhibits S-23 and S-24, R. 216-232, Findings, Par. 13, R. 875). These agreements were executed pursuant to orders entered by the Federal Courts of Delaware and Illinois having charge of the receivership (R. 183 Exhibits S-19 and S-20, R. 210-211, Findings, Par. 14, R. 875).

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* Mr. Gillies, former Executive Vice-President of Masonite, called as a witness by the Appellant, testified in answer to the Appellant's counsel that as to the Celotex petition for a writ of certiorari "we never took that seriously"—"one chance in a million" (R. 486, 487).

Mr. Dahlberg, President of Celotex, testified that he and the Celotex Receiver "were just whistling to keep courage up", and that the Receiver, who was a lawyer, advised that "he would not give much for our chances in the Supreme Court on a writ" (R. 573).

In the course of his summation, Mr. Cox, the Appellant's trial counsel, said concerning this patent litigation and the petition for a writ of certiorari (R. 727):

> "Mr. Cox: There is no question that the litigation was bitter, and there is no suggestion that the patent litigation was collusive. * * *
>
> "The Court: You are not intimating in any way that this Court at this time should go back of the decision of the Circuit Court of Appeals?
>
> "Mr. Cox: I don't see how I can make that suggestion. * * * Certainly that decision is binding, and I suppose controls. * * *
>
> "Mr. Cox: I think it was undoubtedly true that in most of the patent cases which the (Supreme) Court has taken have been cases in which there was a conflict between the Circuits. But I wouldn't like to make the statement that they never have taken a patent case unless there was conflict between the Circuits."

Concerning this settlement of the litigation the Appellant's trial counsel said in summation (R. 726):

> "The settlement itself, so far as it related to the disposition of the litigation is beyond criticism."

5. *The Agency Agreement and License Option of October 10, 1933.* This document, thus authorized by two Federal Courts, was entitled (Ex. S-23, R. 216-232):

> "Agency Agreement and License Option."

The License Option was never exercised. Consequently, the only contract which became operative was the "Agency Agreement". That document was just what its title describes. The Receivers of Celotex became Masonite's agent or factor for distribution for the remaining life of that Masonite patent or application having the longest term to run, subject to the right of the agent to terminate the contract at any time by six months' notice (Ex. S-23, R. 222-224).

Paragraph 2 expressly recites (R. 217):

> "The Manufacturer hereby appoints said Agent as a *del credere* factor and hereby authorizes said Agent and licenses it under said Letters Patent to sell the said hardboard products manufactured by said Manufacturer as covered in Section 4 hereof throughout the Continental United States and Hawaii on the terms, prices and conditions hereinafter more particularly stated."

Paragraphs 7 and 8 provide for shipment by Masonite to the Agent's customers direct as well as to the Agent on consignment. As to the former class of shipments, title of course passed directly from Masonite to the Agent's customers on delivery to them.

As to the latter class of shipments, Paragraph 7 recites (R. 218):

> "Said Agent agrees that on direct shipments to the Agent said hard boards shall be received and held on

consignment, *and that the title thereto shall remain in the Manufacturer until sold by the Agent.*" (Italics ours.)

Paragraph 21 recites (R. 223):

> "The Agent may reconsign products of the Manufacturer to sub-agents with the approval of the Manufacturer on condition that title to said products shall remain in the Manufacturer."

Paragraph 18 (R. 222) permits the Manufacturer to inspect from time to time the physical inventory of the Agent, and, through certified accountants, to inspect its books and records "relating to any of the transactions or matters which are the subject of this agreement."

Paragraph 15 (R. 221) provides that in the event the Agent cancels the agreement, the Manufacturer shall have the option to require the return of all unsold goods remaining on consignment, and that (R. 222):

> "On all goods returned, the Manufacturer shall refund to the Agent all advances made by the Agent to or for the account of the Manufacturer in respect of such goods, including freight and reasonable handling charges."

Paragraph 14 (R. 221) requires the Agent to report to the Manufacturer on or before the 20th day following the close of each calendar month "an inventory of all products consigned to the Agent and on hand and unsold at the end of said month."

Thus the intent of creating an agency for distribution is the accepted and reiterated declaration of the agreement itself. The terms of the agreement do not fit a sale and would not in the least degree be consistent with a sale to the Agent whether the hardboard were delivered by Masonite direct to the Agent's customer or on consignment to the Agent. To this effect are the uniform testimony of the witnesses who testified either from the wit-

ness chair or through stipulation (R. 515, 578, 627-8, 631, 635, 650, 663, 669, 677-8), and also the Findings of Fact by the Trial Court (Findings, Par. 16, R. 875 and Par. 28, R. 880).

None of the other Appellees participated in any manner in the making of the original "Agency Agreement and License Option" of October 10, 1933 (R. 489, 490, 578, 627, 631, 634, 659, 668-9, 682, 708, 720, Findings, Par. 15, R. 875), and the representatives of The Celotex Company had no knowledge at that time that Masonite contemplated the making of similar agreements with any other companies (R. 490, 578).

6. *Agency Agreements with Certain Other Appellees.* Following the determination of the validity of the Masonite patent by the Circuit Court of Appeals and the making of the Agency Agreement of October 10, 1933 with the Receivers for The Celotex Company, like agreements were made by Masonite over the period from October 31, 1933 to February 2, 1935 with others of the Appellees (R. 186).*

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* The reason for making these agreements is set forth in the Stipulation of Facts (R. 181, 184), and in the uncontradicted testimony of Mr. Alexander, President of Masonite, thus summarized (R. 675-9):

> The background was the company's financial condition and its need for distribution. Celotex and other companies like it had broad distribution. Masonite did not and had not been able to get it. Masonite had several reasons for an agency contract instead of a purchase and sales contract. First, it gave Masonite the right to set the price and terms and conditions of first sale. Second, Masonite could keep for itself the industrial field which was important to it because of the quantity of off-grade board and shorts that had to be sold to industry and could not be permitted to be sold to dealers for the building material trade. Third, an agency arrangement whereby Masonite's own selling organization was thrown into active competition with the agents' salesmen would stimulate the morale of Masonite's own sales department and benefit the public. Fourth, to have the agents provisionally accept the validity of Masonite's patents, even if they had a reasonably short cancellation clause, would give surcease from further infringement suits. The Celotex patent litigation had cost Masonite $150,000 and it did not want any more for a while. Fifth, only by mass distribution and consequent mass production could Masonite get in the low-priced field.

No one of these Appellees, except Insulite, was producing or had a board to distribute which even resembled hardboard. All of them needed Masonite's hardboard to supplement their own lines, and most of them had previously applied to Masonite for the privilege of selling hardboard products (R. 682, Findings, Par. 17, R. 876). The negotiations resulting in each of these original agency contracts were separately conducted with each company and not as a group or in concert in any way (R. 682, Findings, Par. 20, R. 877), but at the time of making each such agreement Masonite furnished the Agent with a copy of the prior agreements that had been made, for the reason that each agreement contained a provision that if any more favorable agency agreement was made with another, the Agent would be entitled to the benefit thereof (Exhibit S-34, R. 253, Findings, Par. 17, R. 876). The agents which Masonite needed were companies which had national distribution to the wholesale and retail dealer in building materials, in order that Masonite might operate on a mass-production basis (R. 483, 682). Masonite never refused an agency on like terms to any such distributor (R. 682). The Agents, not Masonite, solicited the agencies (R. 682). No "license option" was ever exercised.

7. *The Insulite Situation up to the Making of the Agency Agreement of February 2, 1935.* Insulite Company (hereinafter called "Insulite") was organized primarily to manufacture insulation board, and such has remained its principal business (R. 622, 625). During all the years here involved it has been a wholly owned subsidiary of Minnesota and Ontario Paper Company, which was in equity receivership or trusteeship from February, 1931 until February, 1941 (R. 185, 186, 623, 626, Findings, Pars. 18, 19, R. 876-877).

In 1932 Insulite began a considerable manufacture of an artificial hard board having physical characteristics similar to Masonite's hardboard and marketed as "Insulite Hardboard" (R. 176, 185, 623, Findings, Par. 18, R.

876). It made use of a process of converting its insulation board into a hard board, and claimed to have patents or applications for patents relating thereto (R. 185, 626, Exhibit S-26, R. 234, Findings, Par. 18, R. 876). The process was similar to that stated in the Masonite patent. (Compare Insulite's description, R. 623, with Mason's earlier and much broader and more inclusive description at R. 194-201, 617-8).

During March, 1934, Masonite instituted a patent infringement suit in the United States District Court in Pennsylvania against Faxon Lumber Co., a dealer in Insulite's hard board, charging infringement of Masonite patent No. 1,663,505; and by order of the United States District Court, District of Minnesota, the receivers of the Minnesota and Ontario Paper Company were authorized to cause Insulite to defend the Faxon suit (R. 185, Findings, Par. 18, R. 876). In the meantime, Insulite had lost numerous dealer accounts and its large account with Wood Conversion Company because of its inability to supply a full line of hard board products. It did not have the capital to install machinery and equipment necessary to expand. It found that its production of a hard board by the processes it was using was greatly reducing its capacity to produce insulation board, and that its profit on insulation was substantially more than on its hard board (R. 625-628).

A conference was thereupon had with Masonite which resulted in the execution of the agreements next mentioned and the dismissal of the suit against the Faxon Lumber Company without prejudice to the patent claims of either party, all pursuant to an order of the United States District Court for the District of Minnesota, which had jurisdiction of the Minnesota and Ontario trusteeship (R. 186, 627, Exhibit S-29, R. 235, Findings, Par. 19, R. 877). The agreements entered into were an "Agency Agreement and License Option," the same in all essential provisions as the agency agreements previously executed

with the other Appellees; and an export and other agreements providing *inter alia* for dismissal of the Faxon suit, and for the sale to Masonite of the hydraulic press which Insulite had used in manufacturing its hard board and for lease of this press back to Insulite for the manufacture of the same type of so-called "hard-board" for sale in the export trade only, but without prejudice to Masonite's rights or the rights of its foreign licensees under Masonite's foreign patents (R. 187, 216, 235, 259, 262-3, 266). (For a further statement see pp. 74, 75, *post.*)

8. *The 1936 Agreements.* Numerous differences arose between Masonite and its Agents over the proper construction of the first agreements. Accordingly, superseding agreements were executed and became effective October 29, 1936, between Masonite and each of the Agents with which former agency agreements had been executed. Since the old agreements all contained "favored nations clauses," these new agreements were all of like tenor except as to names of the factors (Exhibit S-44, R. 268-317). They were for the purpose of clarifying various provisions which had given rise to controversies (R. 520-1, 683-4, 660, 686-7, Finding 23, R. 878).*

* Other than clarifying details, no substantial changes were made by the 1936 agreements except the following:

A requirement in the 1933 agreement that the Agent make an advance to Masonite of one-half the difference between Masonite's selling price and the agent's commission was made optional at the election of Masonite. This option was never exercised (R. 189) so that under the 1936 agreements the factor made no payment to Masonite until after the end of the calendar month in which the factor made the sale. A provision was added whereby the factor agreed to indemnify Masonite against damages resulting from injury to persons or property arising out of the handling by the factor of Masonite's hardboard (Exhibit S-44 at R. 272). It was made clear that the prices fixed by Masonite for the sale of its hardboard should not be reduced by the agents by rebates or the use of "combined bids" (Exhibit S-44 at R. 285-286); and that the right of determining what concerns Masonite would recognize as a wholesaler or jobber for hardboard was vested exclusively in Masonite (Exhibit S-44 at R. 297). Finally, the schedule of commissions allowed to the agents was somewhat increased (Exhibit S-44 at R. 279).

These superseding agreements were not intended to and did not change the relationships created by the earlier agreements (R. 580, 583, 520-521, Findings, Par. 23, R. 878).

The Appellant in its statement infers collusion over the fact that as each 1936 agreement was executed it was escrowed so that all agreements could be made effective simultaneously. The fact of escrowing is correct, but the Appellant fails to state the reason, namely, that the 1936 agreements provided somewhat more favorable commissions to the agents, and Masonite was bound by each of the old agreements to a "favored nations clause" (R. 686-7.). (For a further statement see pp. 46-59, *post.*)

9. *The Flintkote and Dant & Russell Agreements in 1937.* On March 16th, 1937 and June 19th, 1937, respectively, Masonite entered into agreements with the Flintkote Company and Dant & Russell, Inc., which were, so far as the essential relationship is concerned, substantially the same as the 1936 agreements above mentioned (Exhibits S-46, S-47, R. 351, 188, 634-6, 712-7, Finding 25, R. 879).*

10. *The Masonite-Insulite Agreement of February 1, 1938.* More than two years after the original agency agreement had been executed between Masonite and Insulite they became involved in interference proceedings in U. S. Patent Office over an Insulite application relating to the use of pressure rolls in making a hard board. About the same time they also became involved in alleged infringement by Insulite and by The Insulite Company of

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* The differences were that Masonite had a right to cancel on giving six months' notice, that no option was granted for a manufacturing license, that there was no "most favored nation" clause, and that Masonite might cancel the agreement at its option if the factor engaged in the distribution of a commercially competing product (Exs. S-46, S-47, R. 351-384).

Finland O/Y, a wholly owned subsidiary of Insulite, of certain of Masonite's foreign patents, particularly Finnish and Norwegian, covering hardboard (R. 188, 189, Findings, Par. 26, R. 879). The agreement of February 1, 1938 was intended to effect a settlement of these matters without litigation (Exhibit S-48, R. 384), and is discussed fully hereafter (pp. 75-79, *post*).

The interference proceeding was thereafter settled in the manner provided for, resulting in a finding of priority in favor of Insulite in the use of pressure rolls. Thereupon the interfering claims were awarded to Insulite and it obtained Insulite Patent No. 2,134,659, described as "relative to the production of 'pressed boards' " (R. 385). This patent was included in the license to Masonite under the above mentioned agreement (R. 189, 385, Findings, Par. 26, R. 879).

11. *The 1941 Agreements.* With the purpose and intent of meeting (but not conceding) the Anti-Trust Division's criticisms of the prior agreements, but at the same time intending to preserve the agency relationship (R. 54), Masonite entered into new agreements separately with each of the other Appellees herein after the form thereof had first been submitted to the Attorney General of the United States, who declined to express any advance opinion as to the legality thereof (R. 54, 687). These agreements are all of like tenor and were dated as of March 20, 1941, but were executed separately on or about April 1, 1941, and by their terms rescinded all prior agreements absolutely (R. 407, 414-5). All the Appellees have actually operated under them since that date (R. 189, Findings, Par. 27, R. 879).* Both sides asked by formal pleadings for an express adjudication as to their validity (R. 52, 164-5).

These new 1941 "Appointment of Agent" agreements eliminated various provisions which the Appellant had charged constituted *indicia* of sale instead of agency; and in fact the Appellant's trial counsel in his summation

* The commission allowed to agents was somewhat reduced by excluding treating charges in the price on which the commissions were based (R. 415). The contrary comment in the footnote to

before the Trial Court admitted that the Appellant had only one real objection to these new 1941 agreements to-wit "the price provision" (R. 749). (For a further statement see pages 100-107, *post*.)

II

The Findings of Fact on Basic Subjects

The Findings of Fact (R. 870-883) were not a mere judicial acceptance of material prepared by counsel for the successful side. As the Findings themselves recite (R. 870), they were arrived at only:

> "after conference with counsel and consideration of the proposed findings of fact and conclusions of law submitted by defendants and the objections thereto and proposed supplemental findings of fact submitted by plaintiff, and modifications having been made in the proposed findings of fact submitted by defendants, the Court hereby makes its Findings of Fact and Conclusions of Law as follows"

We now set forth, either in quotation or in summary and with the supporting citations from the Record, certain basic Findings which are not mere narrative but which deal with fundamental considerations.

These Findings not only are not "clearly erroneous" but are the only findings possible upon the evidence. See Rule 52 of U. S. Rules of Civil Procedure.

Masonite Patents

> "39. Masonite Patent No. 1,663,505 is a basic patent covering hardboard and the manufacturing process for making and producing hardboard" (R. 882).

> "40. * * * Masonite's patents on hardboard are fundamental and basic" (R. 883).

(Supported by R. 174, 178, 182, 183, 591, 589-90, 617-18, 642-44, 645-49, 658, 660, 666, 720-22; *Masonite* v. *Celotex* 66 F. (2nd) 451.)

"Hardboard"

"2. The term 'hardboard' is widely understood to mean the patented product manufactured by Masonite Corporation under the basic Mason patent, No. 1,663,505, issued March 20, 1928, and other patents owned by Masonite" (R. 871).*

(Supported by R. 174, 178, 473, 591, 534, 536.)

"Hardboard" in Competition with Numerous Materials Having Similar Uses

"5. * * * There are other materials which can be and are in fact used in some cases as substitutes for hardboard for various purposes. While no one of these commodities is fully capable of being put to all of the uses for which hardboard in its various forms is suitable, one or more of these other commodities is capable and is in fact being put to each use for which hardboard in its various forms is suitable" (R. 871).

(Supported by R. 179, 558-62, 596, 609, 679.)

"Hardboard" is on the Price Levels of other cheap Building Materials with like Uses

See Finding 42 (R. 883).

(Supported by R. 555-57, 560-63, 609, 679.)

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* This definition of the artificial trade word "hardboard" as designating Masonite's patented product, is confirmed by the following in the Stipulation of Facts (R. 178):

18. Hardboard, *the subject matter of this suit,* was patented by the late William H. Mason on March 20, 1928. * * * The term 'hardboard' is widely understood as referring to the product manufactured by Masonite." (Italics are ours.)

Hence the Appellant's brief is confusing and belies the Stipulation when it employs this artificial word "hardboard" as descriptive of any artificial board having hardness.

"Hardboard" Less than 1%

"5. * * * The amount in money of the retail sales of hardboard by retail building material dealers is estimated to be substantially less than 1% of the amount in money of sales of building materials by retail building material dealers" (R. 871).

(Supported by R. 179.)

Adjudication of Validity and Scope of Masonite Patents

"10. * * * This patent litigation (by Masonite against Celotex Receiver) was bitterly contested and finally resulted in a decision by the Circuit Court of Appeals for the Third Circuit on July 6, 1933, holding two product and four process claims of said patent valid and infringed. Masonite Corporation *v.* The Celotex Co., 66 F. (2d) 451" (R. 874).

(Supported by R. 182-83, 212, 485-86, 573, 676, 727.)

The Problem before the Celotex Receivers on October 10, 1933

"11. The problem confronting the Celotex receivers on July 6, 1933 when the decision of the Circuit Court of Appeals came down, was a serious one, for it was realized that if the decision stood, The Celotex Company would be cut off from a supply of hard panel board to round out its line of building products, and it would have to face a large claim by Masonite for damages and profits. It was also felt that there was little chance that the decision would be reviewed by the Supreme Court because the decision rested largely on factual findings and there was an absence of conflicting rulings in different circuits" (R. 874).

(Supported by R. 573, 594-95, 643-45.)

The Problem before Masonite on October 10, 1933

"12. The problem for Masonite was likewise a difficult one even though it had succeeded in the patent litigation; the credit of the company was seriously impaired, the operations at the Laurel plant were almost at a complete standstill, and urgent measures were required to keep the business alive. What Masonite particularly needed was a larger national distribution of its products, and it was realized that this could only be obtained by securing a much greater number of dealer contacts than it then possessed" (R. 874).

(Supported by R. 184, 478-79, 485-86, 512-13, 672-77.)

Agreements of October 10, 1933, authorized and approved by Federal Courts

"14. These agreements were executed by one of the Celotex receivers acting under court direction and authority. On the conclusion of the reorganization proceedings relating to The Celotex Company in 1935, said agreements were assumed under court authority by the reorganized company, The Celotex Corporation, one of the present defendants" (R. 875).

(Supported by R. 183-84, 651-55.)

No Understanding or Participation on October 10, 1933 by Defendants other than Masonite and Celotex Receivers

See Finding 15 (R. 875).

(Supported by R. 489-90, 578, 627, 631, 634, 659, 668-69, 682, 708, 720.)

Masonite made no Cross Licensing Arrangement with Celotex

"14. * * * Masonite was never willing to and never did make any cross license arrangement with Celotex" (R. 875).

(Supported by R. 181, 479, 518.)

The Intent was an Agency for Distribution and that Title should not Pass

"16. It was the intent and purpose of the said agreement of October 10, 1933, and of the parties thereto to constitute the receivers of The Celotex Company and their successor in reorganization an agent of Masonite in the distribution and selling of hardboard on the terms and conditions set forth therein; and it was not the intent and purpose of the said agreement or of the parties thereto to constitute the receivers of The Celotex Company or their successor in reorganization a buyer from Masonite of the hardboard which was the subject thereof, or that title to such hardboard should pass from Masonite to such receivers or their successor, whether or not such hardboard was delivered by Masonite into the possession of the receivers of The Celotex Company or their successor in reorganization" (R. 875).

(Supported by R. 216, 515, 675, 677.)

Each Agreement Independently Made

Finding 20 (R. 877) is to the effect that each agreement made with Masonite was made with Masonite without conference or communication with any other defendants.

See also Finding 21 (R. 877).

(Supported by R. 627, 630, 631, 633, 635, 658, 666, 709, 715-16.)

No Agreement, Understanding or Concerted Action to Fix Prices, or Limit Production

"22. No defendant, nor any representative of any defendant, ever suggested or requested the insertion in any agreement with Masonite of any provision for the fixing of prices or the limiting of the class of customers to which it might distribute hardboard or the limiting of the manufacture or production of hardboard" (R. 878).

"24. * * * Said agreements were not made pursuant to or as a result of any conspiracy or concerted action to fix prices or restrain or monopolize trade or commerce, interstate or foreign, in hardboard or any product similar thereto or competitive therewith" (R. 878).

Finding 32 is to the effect that Masonite exclusively determined the price and in so doing was never influenced or controlled by the other defendants (R. 880).

(Above three Findings supported by R. 489, 508, 515, 592-93, 628, 631, 633, 635, 662, 668, 684, 691, 709, 720.)

Good Faith and Honest Purpose

"28. * * * The said agreements were made in good faith for the purpose of meeting the need of Masonite for larger distribution and the separate need of each of the said distributors to have hardboard included in the line of building materials being sold by it" (R. 880).

See also Findings 29, 33 and 41 (R. 880, 881, 883).

(Supported by R. 508, 515, 627, 630-31, 634, 648, 662, 663, 668, 676-77, 709, 715.)

Absence of Conspiracy

"43. There has at no time been, as between the defendants or any of them, any conspiracy, combination or concerted action to limit or restrain the manufacture or production of Masonite's patented hardboard or to establish the price thereof or to restrain competition between such hardboard and other commercial products" (R. 883).

(Supported by R. 592-94, 627, 631, 633, 634-35, 662-63, 668-69, 687-88, 708-09, 720.)

No Understanding Outside the Written Agreements

Finding 31 is explicitly to this effect (R. 880).

(Supported by R. 627, 631, 633, 635, 663, 668, 687, 708, 716.)

No Control of Price After Title Passed

Finding 32 is to the effect that Masonite never attempted "to influence or control the price after title to the hardboard products has once passed" (R. 880).

(Supported by R. 539, 673.)

No Attempt to Control the Sale or Price of Insulation Board or Other Products

"33. * * * The said agreements were never used for ulterior purposes; nor was any attempt made by Masonite or the other defendants to control or affect in any wise the sale or price of insulation board or other products" (R. 881).

(Supported by R. 489, 511, 518, 527, 628.)

The Intent was Agency and Not Passage of Title

Finding 28 (R. 880), dealing with the agreements with the other Agents, is similar to Finding 16 dealing with the agreement of October 10, 1933, with Celotex, p 23, *supra*.

(Supported by R. 235, 268, 407, 515, 675, 677.)

Agents and Distributors for Masonite

"44. The several defendants other than Masonite have been, and have acted as, agents of and distributors for Masonite under the aforesaid contracts made by them with Masonite" (R. 883).

(Supported by R. 628-29, 631, 633-35, 654, 663, 669, 670, 687, 707, 713, Ex. S-56 facing R. 420.)

Competition Between Masonite and the Other Defendants and Between the Other Defendants Themselves

"37. Of the hardboard products sold to the building trades, approximately one-half is sold by Masonite directly and an equal amount through the other defendants under the said written agreements. There is competition between Masonite and the other defendants and between the other defendants themselves in securing orders for the purchase of hardboard products" (R. 882).

(Supported by Ex. SS-4 at pp. 836-7 of Record; and R. 540-41, 680-1.)

Effects: Greatly Increased Manufacture and Distribution, Without Increase in Price and With Promotion of Competition Between Dealers

See Finding 30 (R. 880).

(Supported by Exs. SS-1, SS-2, SS-8, SS-9, SS-10, SS-11, SS-12, in Appendix hereto, and SS-4, SS-5, at pages 836-7 of Record; also R. 538-39, 618, 673-74, 693.)

Prices Remained at Same or Lower Levels

See Finding 34 (R. 881).

(Supported by Exs. SS-1, SS-2, SS-8, SS-9, SS-10, SS-11, SS-12 in Appendix hereto; and R. 538-39, 673-74, 693.)

No Evidence of Exploitation of Public

See Finding 42 (R. 883).

(Supported as in the case of last-mentioned two Findings.)

The Other Defendants are freely selling Competitive Articles

"39. * * * Many of the defendants have in fact distributed products which are in many respects competitive with hardboard" (R. 882).

(Supported by R. 175-177, 558, 560, 562, 596, 609, 628.)

No Restraint on Manufacture of similar but non-infringing Products

"39. * * * Various other defendants have been active for many years, both before and after the making of the aforesaid agreements, in attempting to find a substitute for the patented hardboard which would not infringe this patent, but without success. Neither the making of the various agreements aforesaid with Masonite nor the performance thereof by the other defendants discouraged or dissuaded any of the defendants from efforts to discover or develop non-infringing products or materials which might be sold by them in competition with patented products of Masonite. Various defendants (other than Masonite) were willing and intended to terminate their respective agency agreements with Masonite whenever

it should become commercially possible to offer a competitive non-infringing product similar to Masonite's hardboard" (R. 882).

(Supported by R. 589-91, 645-649, 660, 666, 678, 720-22; and see pp. 65-67, *post.*)

Masonite Acted Reasonably in Reserving to Itself the Right to Make Direct Sales to Industrial Purchasers

See Finding 36 (R. 881-2).

(Supported by R. 509-10, 537, 679, 680; and see pp. 66-71, *post.*)

III

Some Basic Considerations Ignored or Slighted in Appellant's Brief

1. The Appellant's brief ignores all the Findings of Fact. It proceeds as if they had never been made, notwithstanding Rule 52 of U. S. Rules of Civil Procedure.

2. It even ignores many of the controlling facts set forth in the eleven Stipulations of Fact (R. 168, 617, 622, 629, 632, 634, 637, 655, 665, 706, 712). Instances will be shown in the course of the Argument.

3. It ignores or slights the fact that Masonite's patent No. 1,663,505 covering invention of both process and product is basic; that its scope and validity have been judicially determined; and that the subject matter of the written agreements now challenged is that patent, process and product. (See pp. 36-39, *post.*)

4. It ignores the fact that, notwithstanding continuous research, no one has discovered a non-infringing, commercially feasible process or a similar non-infringing artificial board. (See p. 38-39, *post.*)

5. It slights the fact that Masonite is the sole and exclusive manufacturer of its patented product, and that others were never licensed to manufacture and sell such product. (See pp. 36-39, *post.*)

6. It slights the fact that there has been no attempt to restrict inventive ingenuity. No agent may market an infringing product during the life of its agreement; but the agent can even contest the validity of the patent upon terminating the agreement on six months' notice. (See pp. 71-83, *post.*)

7. It ignores the fact that the agreements do not prevent the *del credere* agents from manufacturing, distributing or selling the numerous non-infringing products having uses similar to Masonite's patented product. (See pp. 79-83, *post.*)

8. It slights the fact that as between Masonite and the agents the price at which the latter might sell was not fixed by agreement but was set exclusively by Masonite as patent owner. (See pp. 72-73, *post.*)

9. It ignores the fact that concededly no moral turpitude is claimed (R. 750); that no unconscionable competitive methods were even intimated at the trial; that no unconscionable use of the patent was alleged or proved; that there has been no coercion or duress; no taking out of a patent for non-use; no "fencing-in" of the patents of others; no "tying-in" arrangements; and no restrictions upon the manufacture, distribution, use or pricing of other commodities.

10. It ignores the fact that there has been no acquisition by Masonite of other patents affecting the industry; that there has been no heaping-up of patents controlling the building-materials industry or even the manufacture of artificial boards (of which there are countless forms in wood and other materials); and that there has been no

restraint of trade or commerce through pooling of patents among the defendants. (See pp. 75-79, *post.*)

11. It ignores the fact that a large part of the sales made by Agents required shipment and delivery direct from Masonite's Laurel plant to the Agents' customers, and that the material thus shipped never became part of the Agents' consignment stock and never came into their possession. (See pp. 39-40, *post.*)

12. It ignores the fact that the agreements have not operated to increase the price or to limit production or to restrict sales or to discriminate as to price. Quite the contrary. (See pp. 36-39, 79-83, *post.;* Exs. SS-4 and SS-5 at pages 836-7 of Record; and copies of Exhibit Charts hereto annexed.)

13. It slights the fact that, whereas the Complaint rests upon the charge that on October 10, 1933 the defendants Masonite and Celotex agreed in violation of the Sherman Act, the truth is that the agreement then made was between Masonite and the Federal Courts. (See pp. 31-32, *post.*)

14. It ignores the fact that all the "purposes" of the alleged "conspiracy" as alleged in Paragraph 41 of the Complaint (R. 9), have not only been unproven, but have been disproven (R. 880). (See pp. 33-34, *post.*)

15. It ignores the fact that all the "effects" of the alleged "conspiracy" as alleged in Paragraph 47 of the Complaint (R. 10), have not only been unproven, but have been disproven (R. 880). (See pp. 35-36, *post.*)

16. It ignores the stipulated fact that the artificial term "hardboard" is a trade designation for Masonite's product. Hence, the Appellant's brief is wholly incorrect and extremely confusing in its constant assertion that others have manufactured or are manufacturing "hardboard." An artificial board, whether made of woody

material or not, might be termed "a board" or even a "hard board" or a "hard panel board"; but it could not properly be "hardboard," Masonite's patented product (R. 178, 871).

All of the foregoing basic considerations of fact, ignored or slighted in Appellant's Brief, have been proven by the eleven Stipulations of Fact, by the undisputed proof, or by the Appellant's own witnesses; and all are part of the Findings of Fact.

ARGUMENT

POINT I

The Appellant wholly failed to prove the case charged in its Bill of Complaint and wholly failed to prove the alleged "purposes" and the alleged "effects" which the Complaint ascribed to the so-called combination. On the contrary, the alleged conspiracy and its alleged "purposes" and "effects" were completely disproven.

SUBDIVISION I

The foundation of the Bill of Complaint, to wit, a conspiracy formed between defendants Masonite and Celotex on October 10, 1933, and subsequently joined by other defendants (pars. 37, 38, R. 8), proved to be not only nonexistent but impossible.

The only parties to the main and supplemental agreements of October 10, 1933, were the Masonite Corporation and "Hobart P. Young, duly appointed Receiver of the Celotex Company, a Delaware corporation, under the certain order of the District Court of the United States for the Northern District of Illinois, Eastern Division, entered June 17, 1932, acting as such Receiver and not personally" (Exhibits S-23 and S-24; R. 216, 232).

These agreements were approved by the Federal Courts in Illinois and Delaware by orders to their receivers entered October 10 and 12, 1933 (Exhibits S-19 and S-20; R. 250-1). Judge NIELDS, particularly, knew all about the Masonite patents and the business of Masonite and Celotex, for he had tried and decided the Masonite suit for infringement (1 Fed. Supp. 494).

Thereafter, on February 8, 1935, Judge NIELDS appointed temporary trustees in 77B for the Celotex estate and directed them to continue with the carrying out of the agreements of October 10, 1933 (Exhibit S-16; R. 182, 651-2). On March 1, 1935, "after due notice" and by order made "at a hearing", he confirmed them as permanent trustees with like directions (Exhibit S-17; R. 182, 653). These trustees assumed the contract of October 10, 1933 (R. 182); and they carried it on until, after "hearings" and by order of September 30, 1935 (Exhibit S-25; R. 184-5, 654-5) confirming the plan of reorganization, the new Celotex Corporation was directed by Judge NIELDS to "assume and perform all executory contracts and agreements properly entered into by said Receivers and said Trustees" (Ex. S-25; Stipulation, Par. 34; R. 184-5, 654-5).

Hence, what was done on October 10, 1933, was done in the open and justiciably by two Federal courts by formal orders after hearings. Thereafter it was repeatedly and formally confirmed by the Federal judiciary during the ensuing two years and even after like agreements had been made with seven other large agencies of distribution (Stipulation, par. 38; R. 186). The contract was "the contract of the court," not of Celotex. (*American Bonding & Trust Co.* v. *Baltimore & O. S. W. R. Co.*, 124 Fed. [C. C. A. 6] 866, 877.) It was negotiated by the authorized agents of the courts as the judicial trustees of the Celotex estate.

If the agreements of October 10, 1933, cannot be pronounced conspiratorial, what then becomes of the plaintiff's case? Judgment cannot be rendered except *secundum allegata et probata*.

SUBDIVISION II

Moreover, the alleged "purposes" of the alleged "conspiracy" of October 10, 1933, are not only unproven but are now disproven.

The allegations of purposes are in Paragraph 41 of the Bill of Complaint (R. 9).

1. The first alleged purpose was "avoiding the possibility of a final determination by the United States Supreme Court."

The Sherman Law does not compel litigation *à l'outrance*. Prudence is not yet a crime.

2. The second alleged purpose was "the elimination of further price competition on hardboard between Masonite and Celotex."

That elimination had already been accomplished by the decision of the Circuit Court of Appeals (66 F. (2d) 451). The agreements of October 10, 1933, merely recognized the judicial *fait accompli*.

3. The third alleged purpose was "the discontinuance by Celotex of the production of hardboard or products competitive with hardboard."

"Discontinuance" by Celotex of "production of hardboard" had already been forced by the Circuit Court of Appeals. But neither that decision nor any agreement has ever wrought "discontinuance by Celotex of the production of products competitive with hardboard" (R. 202, 589-91, 644-9).

4. The fourth alleged purpose was "the restriction of Celotex's sales of hardboard to the building trade, thereby eliminating competition by Celotex in non-building industries."

A patentee has "the exclusive right to make, use and vend the invention" (Patent Act, Section 40). Hence,

when granting vending licenses or rights to others, he may reserve to himself an exclusive field for vending (*General Talking Pictures Corporation* v. *Western Electric Co.*, 304 U. S. 175; 305 U. S. 124; *Ethyl Gasoline Corp.* v. *U. S.*, 309 U. S. 436, 456.) The statutory right of exclusive vending cannot be an unlawful elimination of competition.

Moreover, the unchallenged testimony of Mr. Gillies, Mr. Wallace and Mr. Alexander and Finding 36 based thereon demonstrate that there were sound and, in fact, impelling business and public reasons for the reservation to Masonite of sales to industrial users (R. 509, 516-517, 537, 679-680, 695-696, 699, 881-2).

5. The fifth alleged purpose was "an increase in Masonite's volume of production through the utilization of Celotex's extensive selling organization for increased distribution of hardboard manufactured by Masonite."

True. But is it unlawful for a patentee or the manufacturer of any product, patented or unpatented, to seek to increase "volume of production" or to create "organization for increased distribution"? We had thought that was the very essence and public service of the American system of free enterprise. (See *Appalachian Coals, Inc.* v. *U. S.*, 288 U. S. 344.)

6. The sixth alleged purpose was "increased profits to Masonite and Celotex as a result of an increased margin between cost and selling price."

Since when has "increased profits" become an outlawed business purpose?

No attempt has even been made by the Appellant to prove "cost",—much less "an increased margin between cost and selling price." Masonite, however, has proved that, beginning with the agreements of October 10, 1933, the price trend of its principal products has been downward or at least level, notwithstanding huge increases in the cost of labor and material (Exhibits SS-1, 2, 8, 9, 10, 11, 12, copies of which are hereto annexed; R. 618-620, 836-7. (See *Maple Flooring Manufacturers Ass'n* v. *U. S.*, 268 U. S. 563, 577.)

SUBDIVISION III

Furthermore, the alleged "effects" of the alleged "conspiracy" of October 10, 1933, are not only unproven but are now disproven.

Having stated in Paragraph 41 the alleged purposes of the "conspiracy" of October 10, 1933, the Complaint stated in Paragraph 47 the alleged "effects" (R. 10).

What we have said about the "purposes" applies equally to the "effects." The pleader attributed indiscriminately to the agreements of October 10, 1933, the effects which had already been wrought by the decision of the Circuit Court of Appeals and by the Patent Act.

The *reductio ad absurdum* in all this prolific inventiveness by the pleader was the allegation that "the purpose and effect" of the written agreements and alleged oral understanding were "to eliminate the possibility that Celotex * * * might perfect inventions to circumvent the Masonite patents." This seems to assume that the Sherman Law is a sort of statutory accessory to infringement.

Moreover, in point of fact, Celotex for eight years *has* been conducting intensive research to discover commercially available substitutes for hardboard and to be prepared to duplicate hardboard when either the estoppel or the patent expires. (See testimony of Mr. Dahlberg, R. 589, and Celotex Stipulation, R. 644-9.)

The final alleged "effect" of the written and of the alleged oral agreements of October 10, 1933, was "to eliminate the possibility that Masonite would cut prices on insulation board in retaliation for Celotex's price competition in hardboard sales." This allegation was merely imaginative. "Price competition in hardboard sales" was effectually eliminated by the decision of the Circuit Court of Appeals; and there is not the slightest proof in the record that Masonite Corporation ever "cut prices on insulation board in retaliation" or otherwise. In fact the

record is conclusive to the contrary. See uncontradicted testimony by Mr. Gillies (R. 489) and by Mr. Wallace (R. 525).

POINT II

There has been no unlawful restraint of trade in this case because Masonite's adjudicated patent is basic, and gave to Masonite the sole right to manufacture and sell hardboard until March 20, 1945.

The entire patent situation as to a hard artificial board made from wood or woody material was ruled by the Masonite patents because of their development early in the art, the revolutionary character of the inventions and the dominating scope of the claims. The patent of Masonite, 1,663,505 (R. 194), has two aspects—it covers the invention of hardboard, *i. e.,* the product, and also the process of making it. It contains both process and product claims. Claims 5 and 14 are typical.* No one can manufacture a product at all like Masonite hardboard without infringing

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* 5. An article of manufacture consisting of a coherent, grainless, homogeneous, hard, stiff and strong body of wood or woody material, which had been disintegrated into substantially fibrous state, wet, and dried from moist state under consolidating pressure and heat until practically completely freed from moisture, said body being denser than, and comprising practically all the substance of the original wood or woody material.

14. The process of making a hard, grainless body of wood or woody material which comprises the steps of disintegrating wood or woody material into substantially fibrous material comprising practically all the substance of the original wood or woody material, supplying moisture to said substantially fibrous material, and drying same under consolidating pressure and heat to such extent that the product is not disrupted upon opening the press while still highly heated.

this patent. The patent is entitled to a broad range of equivalents. For example, it states (R. 195):

> "The fiber is preferably prepared by explosion from a gun through a constricted outlet or outlets under high pressure, * * * but the wood may be ground or transformed into fiber in other ways, so long as practically all the constituents are disintegrated into substantially fibrous state and the fibers are not unduly chopped or shortened."

The basic character of the patent was carefully ruled on by the Trial Court which made specific Findings Nos. 2, 39 and 40 (R. 870, 871, 882, 883).

Judge NIELDS in the District Court (1 Fed. Supp. 494), although holding the claims not infringed by Celotex' board made of bagasse, held the patent valid and of great worth. On appeal the prior art was again exhaustively considered by the Circuit Court of Appeals for the Third Circuit in the hotly contested litigation of *Masonite* v. *Celotex Corp.*, 66 F. (2d) 451.

On that appeal the limitations on infringement made by the District Court were swept aside and the patent held broadly comprehensive as well as valid. The opinion by Judge WOOLEY was carefully considered. In describing Mason's invention he said that Mason:

> "* * * set about to make what, in a word, is synthetic wood, that is, wood taken apart and put together again, not, of course, as nature would do it but artificially, whereby practically all the advantageous characteristics of wood are retained, some of its disadvantageous characteristics eliminated and new characteristics of its own added. * * * What he proposed was to depart abruptly from the arts and avoid chemically digested fiber and chemical action anywhere and resort to the wholly novel practice of tearing wood into shreds; that is, separating out its fibers, and putting them back again physically, without adding any element to weld or bind them together" (66 F. (2d) 452).
>
> "Whatever it may be, the fact is the wood fibers, put back as the patent teaches, do in some way grasp

their fellows and hold them fast. That they could be made to do this was a challenge to nature. And it was new" (*Ibid.*, 453).

The Court then commented on the acceptance of the plaintiff's product by the trade, the vast number of uses to which it was put, and that:

> "The value of Mason's contribution to industry has been recognized by a grant of medals. * * * No one, save the defendant, questions that what Mason did was invention."

If an industry tries unsuccessfully to avoid or escape the effect of a patent, that is proof to a demonstration of its basic character. The record is undisputed that such has been the case here. (See Finding 39, R. 882, quoted with supporting citations at page 27, *supra.*)

Mr. Dahlberg, President of Celotex, testified that they used Mason's process and made Mason's product in England because Masonite had no patents there, thus paying to the patent the greatest possible tribute, *i. e.*, that of servile imitation (R. 579, 587).

Celotex and other appellees spent thousands of dollars and an infinite amount of time in an effort to find some means of circumventing the patent (R. 645-49, 666, 720-22). For example, Celotex' Mr. Dahlberg testified that up to the time that the *del credere* agreement was signed (R. 589, 590):

> "From the time of the Circuit Court of Appeals right up to the signing of this agreement everybody practically in the operating department, except the regular operators, and in the research department, devoted all their time and attention in a frantic, mad scramble to get something that would clear us of this decision and permit us to continue the manufacture of hardboard. They tried various ways. I, myself, spent days consulting outside patent counsel. * * * I just could get no comfort out of anybody. * * * We tried rice straw. We tried cooking. We

tried the idea of introducing some different kind of glue or adhesive to substitute for the natural lignins in the wood, and we just couldn't get anywhere. We just couldn't get anything that would work out commercially, or that they would agree with me would clear us of the patent."

This type of research actively and without abatement continued unsuccessfully to the very time of the present trial (R. 644-49).

Other Appellees similarly and without success tried to avoid the patent. See the Stipulation of Facts, 38-43 (R. 720-22). Flintkote alone spent over $30,000.00 and examined unsuccessfully not only United States but also German, Swedish and other foreign patents (R. 721).

POINT III

Appellant's brief, in arguing that the agreements wrought a transfer of title to the agents, overlooks the paramount fact that the bulk of the agents' business was taking orders for shipments direct from Masonite to the customers. No material thus sold was ever delivered to the agent or passed through its consigned stock. The Appellant's argument is therefore wholly irrelevant to the bulk of the business handled by the agents.

Moreover, as to the business handled through consigned stocks, the Appellant's brief proceeds on the erroneous conception that an agency relationship must be confined to the simple category of master and servant and of employer and salaried employee.

Thus, Appellant's brief utterly ignores the realities of the business and the body of law as to *del credere* factorage.

Appellant has singled out from the factorage agreements certain incidents connected with the sale of hard-

board consigned to the agents, which, it says, may have determinative bearing on the legal character of the relationship.

The Appellant wholly fails to acknowledge that each of the agency agreements contemplated the shipment of hardboard from Masonite's factory at Laurel, Mississippi, direct to the agents' buyers (R. 217, 270, 410). Hardboard thus shipped by Masonite directly to agents' customers never became a part of the agents' consignment stock. The agents never received delivery and never even had physical possession of any of the material so shipped.

Hence, in so far as these transactions are concerned, the agents could not have obtained title to the hardboard under any theory; and perhaps this is the reason why Appellant's counsel seem to have chosen to ignore these transactions, which, it should be noted, were by far the greater bulk of hardboard sales through agents. Celotex, for example, sells more than 2,000,000 feet of hardboard a month but carries only from 100,000 to 500,000 feet in its consignment stocks, and such stocks require from one month to six months to "turn over" (R. 586-7; Ex. S-56, R. 420-1).

The outstanding fact, therefore, is that the Appellant's argument is irrelevant to the bulk of the business involved, and seeks to overthrow the whole business merely because of an attack which can concern only the lesser portion of it. For the same reason the Appellant's argument as to the passage of title must be confined to that portion of the hardboard which physically passed through the agents' consignment stock—a relatively small amount.

Nevertheless, we take up Appellant's alleged tests in their order:

SUBDIVISION I

Each of the provisions of the agreement of October 10, 1933, and of the subsequent agreements, was a permissible part of a *del credere* factorage.

(1) A *del credere* factorage is a highly evolved but ancient and distinct form of agency, shaped to meet the intricacies of commerce spread over a vast area.*

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* The history of *del credere* agency or factorage in English Law is learnedly set forth by Prof. R. S. T. Chorley, Professor of Commercial and Industrial Law at the University of London in an article published in 1929 in 45 *Law Quarterly Review,* p. 221, *et seq.*:

"The term *del credere* is in its origin Italian, implying credit or trust (*vide* Oxford Dictionary), and it has been said to signify 'exactly the same as the Scotch word warrandice or the English guarantee.' (Argument in *Mackenzie* v. *Scott* (1796) 6 Brown P. C. 280, 287.) It is not clear at what date the term first came into use in mercantile English. I have not found it used before *Grove* v. *Dubois,* 1 T. R. 112, which was decided in 1786, though cases are mentioned in Cooke's Bankruptcy (1788) which were decided as early as 1783. It does not appear in Malynes' Lex Mercatoria (3rd ed. 1686), nor in Termes de la Ley (1721 ed.), nor in Jacob's Lex Mercatoria (eds. 1718 to 1782), which contains a glossary of mercantile terms, nor in any of the eighteenth century editions of Beawes' Lex Mercatoria. Dr. Johnson does not mention it.

"In the first reported case where what was in effect a *del credere* commission was nvolved, *viz., Scrimshire* v. *Alderton* (1743) Strange, 1182, the term is not used. The conduct of the jury in that case perhaps indicates that commissions of the *del credere* type were quite well known at that time, and if the term *del credere* had been in use the reporter would presumably have employed it. I think that the commissions which were first described as *del credere* were those paid to marine insurance brokers for guaranteeing the payment of losses by the underwriters with whom they placed insurances. *Grove* v. *Dubois* was a marine insurance case, as also was *Bize* v. *Dickson* (1786) 1 T. R. 285, decided in the same year; and the majority of the important series of cases decided early in the next century related to the same branch of business.

"The term, however, probably came into general commercial use in the seventeen-eighties. In *Grove* v. *Dubois* (*supra*) a case is mentioned as having been heard at Guildhall in 1782. Cooke, in his Bankruptcy (2nd ed. 1788), mentions *del credere* com-

Its nature illustrates the fallacious assumption pervading the Appellant's brief that an agent must be a servant

missions as being paid to factors in the corn and linen trades, and he gives two cases, one in each of these trades, as having been heard in 1782 and 1783. He refers to *Scrimshire* v. *Alderton* (*supra*) as a case of *del credere,* so it is possible that he was applying a term which had just been coming into use in underwriting to these other businesses. The 1797 edition of Jacob's Law Dictionary defines a commission *del credere* as an undertaking by an insurance broker. At any rate, it came to be used to define commissions given to factors similar to those given to insurance brokers and also to commissions given for guaranteeing the payment of bills and notes, before the end of the eighteenth century. *Mackenzie* v. *Scott* (*supra*) is the earliest reported case of a *del credere* commission appearing in terms in a contract of sale, and the transaction which was there in dispute occurred in 1792. During the years immediately succeeding, cases involving *del credere* are numerous, and evidently it was very usual to employ this process. That this should be so is not a matter of surprise, for in early times factors most commonly acted for principals abroad, or at any rate living at a distance. They would not as a rule disclose the identity of their principals when making sales or arranging insurances; while the difficulties of communication and the existence or probability of wars made even the personal liability of the agent little enough security.

"As commerce became more settled during the nineteenth century and the position of underwriters more assured, *del credere* commissions to insurance brokers died out, and we get no more instances of them in the Reports. They continued however to be paid to agents in certain trades where goods are sent overseas on consignment for sale. In Cooke's Bankruptcy, the grain and linen trades are said to be the trades where factors most commonly received a *del credere* commission, and certainly most of the early decisions arise out of insurances, or the sale of grain. In the middle of the nineteenth century they were evidently still paid in the grain trade. (*Cf. Couturier* v. *Hastie* (1852) 8 Ex. 40.) At the present time they are paid chiefly in the timber business and do not otherwise appear to be in very general use. * * *" (pp. 221-223).

"The legal view from the beginning was therefore that a person doing business on the basis of a *del credere* commission was not a peculiar form of buyer, but a peculiar form of agent. * * *

"I think, therefore, that it is quite clear that at the end of the eighteenth century a *del credere* agent was regarded in legal theory as a conduit pipe between the principals to the transaction; that is to say, he was an agent in the modern sense of the term, although as we shall see he assumed some at any rate of the responsibilities of a principal" (p. 225).

or salaried employee, with the principal in direct control of every act of the servant or employee. On the contrary an agent can even be "an independent contractor." *Restatement of the Law of Agency,* Sec. 1, Subsec. (3), Comment (d); Section 250, Comment (a); *Mechem on Agency* (2nd ed.), Sec. 36.

The classic definition of a "factor" is that in *Slack* v. *Tucker & Co.*, 23 Wall. 321 (1875), where this Court said (p. 330):

> "The difference between a factor or commission merchant and a broker is stated, by all the books to be this: A factor may buy and sell in his own name, and he has the goods in his possession; while a broker, as such, cannot ordinarily buy or sell in his own name, and has no possession of the goods sold."

Out of "factorage" has gradually evolved "*del credere* factorage,"—meaning a factor who engages himself for payment by the purchaser of the principal's goods when sold by the factor. In 25 *Corpus Juris* under "Factors" there is the following definition (sec. 2, p. 341):

> "A *del credere* factor or a factor with a *del credere* commission or agency, is one who in consideration of a higher compensation expressly engages to pay to his principal the price of all goods sold by himself, if the purchaser fails so to do."

Mechem on Agency (2 ed., Sec. 2535) thus states the essence of a *del credere* factorage:

> "The *del credere* commission, of course, does not mean that the factor agrees that he *will* sell the goods; or that he will either sell them or pay for them, or that he will pay for those which he does not sell,—though special contracts of that sort are sometimes made;—but merely that, if he does sell them, the owner shall get his pay for them."

And this Court said in *United States* v. *General Electric Company*, 272 U. S. 476, at page 484, with respect to a guaranty of his customers' accounts by an agent,

> "This term occurs in a frequent form of pure agency known as sale by *del credere* commission."

(2) Of course, such elements do not appear in the ordinary, simple form of agency; but it begs the question to assume that, when collectively they do appear, the transaction is transmuted into a sale. Indeed, it is well settled that a factor, and more particularly a *del credere* factor, can not only sell in his own name, but can legitimately and without destroying the relationship sell without disclosing the name of the owner, and he may in his own name bring suit against his customer for the purchase price. (*Beardsley* v. *Schmidt*, 120 Wis. 405; *Robinson* v. *Corsicana Cotton Factory*, 124 Ky. 435, 441.)

(3) The engagement of the *del credere* factor is an *absolute* engagement of guaranty or assumption of a third person's obligation, to wit, the purchaser. It is not contingent upon unsuccessful efforts to collect from the customer. As between the owner and the factor the owner need know only the factor, just as between the factor and the customer the customer need know only the factor.

As said in *Abbott's Terms and Phrases* (1879):

> "*Del credere.* A term used to denote the agreement of an agent or factor, who, in consideration of an additional premium or commission where he sells goods of his principal on credit, guarantees to him the solvency of the purchaser. The additional compensation given is called a *del credere* commission."

(4) These quotations make manifest still another fallacy inherent in the Appellant's too limited conception of agency, to wit, its failure to observe that *an increase of compensation* may make proper the assumption by the agent of obligations beyond those which occur in an

ordinary agency but without in any way destroying the agency relationship itself.

This was the very fallacy which this Court unanimously condemned in *United States* v. *General Electric Co.*, 272 U. S. 476. There, in response to the argument that the vast system of intricate agreements in that case constituted a disguised sale and transfer of title because the numerous so-called agents obligated themselves to carry various risks and to pay certain expenses, such as the expense of storage, cartage, transportation, handling and the sale and distribution of the lamps, this Court held to the contrary and said (p. 484):

> "The expense of this is of course covered in the amount of his (the *del credere* factor's) fixed commission."

(5) Implicit in the right to employ an agent at all is the right to employ him to carry for proper compensation any of the incidental burdens of the business which he is hired to do.

There is no law against compensating an agent for the payment of any given expense of the business being handled by the agent, and hiring on such terms does not change the relationship into one of vendor and vendee.

(6) After trial of these issues the Trial Court made Finding of Fact 38 (R. 882) wherein he found that commissions paid by Masonite to its agents were not unreasonable and were commensurate with the value of the services rendered and the agent's obligation to "absorb certain costs such as freight, insurance, etc." (See also R. 610, 628, 683.)

SUBDIVISION II

Each of the provisions in the agreement of October 10, 1933 and the subsequent agreements not only conform with the traditional *del credere* factorage but all declare an agency and negative transfer of title.

The essential element of a sale is an intent to transfer title to personal property in exchange for a price. In the instant case the contracts on their face expressly provide that Masonite should retain title, though the *possession* of the goods was in certain cases transferred to the agent on consignment. (R. at 218, 271, 409; and see pp. 11, 12, *supra*.)

The Appellant raised the issue, on which testimony was taken, as to whether these express declarations in the agreements correctly stated the intention of the parties, and now says (App. Br. p. 89):

> "In this case, moreover, the question of intent possesses a peculiar importance."

After trial of this issue, the Trial Court made Finding of Fact No. 28, that the agreements were entered into by the parties (R. 880)

> "* * * with the intent and purpose of constituting the defendants (other than Masonite) severally agents of Masonite * * * and it was not the intent and purpose of said agreements or of the parties thereto to constitute the said defendants as buyers from Masonite of its hardboard, or that title to such hardboard should pass from Masonite to such defendants, whether or not such hardboard was delivered by Masonite into the possession of the said defendants."

This Finding is fully supported by the Record (R. 216, 515, 675, 677, 627, 631, 634, 655, 659, 666, 709).

The applicable law is well summarized by the statement in *Palmer* v. *Jordan Machine Company*, 186 Fed. 496, at page 512:

> "To constitute a sale by agreement, there must be an intent to sell and an intent to purchase, a purpose to pass title."

The Appellant is mistaken in arguing (p. 94) that the agent does not account to Masonite for the proceeds of the agent's sales. On the contrary, he does just that,—less, of course, his commissions (R. 218-9).

The Appellant also is mistaken in arguing (p. 91) that the agent had no power to change legal relations between Masonite and third parties. On the contrary, the agent could arrange for delivery (and hence passage of title) direct to his customer from Masonite and not out of consigned stock (R. 219).

The Appellant is also mistaken in arguing (pp. 91-2) that agency is excluded by the provision in the 1941 agreement that the employees of the agent shall not be deemed employees of Masonite. Obviously, this provision was for the purpose of assuring that the agent's employees would not be deemed Masonite's employees under any interpretation of the Social Security Act which had been passed since the 1936 agreements (R. 413).

The Appellant cites (pp. 95-6) the provision prohibiting the agents (in certain cases) "to sell for industrial use." But that provision is obviously a badge of agency rather than of sale and transfer of title.

The statement on page 96 of the Appellant's brief that "the agent has no right to return hardboard it is unable to sell", is untrue as a matter of fact and of law. Such right of return is not negatived in any of the agreements, and is inherent in the relationship of principal and agent.

SUBDIVISION III

Under the *del credere* factorage, the factor assumed by contract certain risks and expenses in connection with the consigned hardboard, without in any way changing the legal character of the relationship.

Incidents of Risks and Expenses

In such contracts as these, the fact that the licensee, agent or bailee for sale assumes for compensation some of the burden of risks and expenses which ordinarily are borne by an owner, does not make the contract one of sale if the contract does not transfer title and does not go beyond a delegation of authority from the owner.

> *Sturm* v. *Boker*, 150 U. S. 312;
> *In re Columbus Buggy Co.* (C. C. A. 8), 143 Fed. 859, 861;
> *General Electric Co.* v. *Brower*, 221 Fed. 597;
> *Lenz* v. *Harrison*, 148 Ill. 598, 36 N. E. 567;
> *Fleet* v. *Hertz*, 201 Ill. 594, 66 N. E. 858.

As said in *Sturm* v. *Boker, supra* (150 U. S. at p. 330), followed in the *Columbus Buggy Co.* case and the *General Electric Co.* case (*supra*):

> "A bailee may, however, enlarge his legal responsibility by contract, express or fairly implied, and render himself liable for the loss or destruction of the goods committed to his care—the bailment or compensation to be received therefor being a sufficient consideration for such an undertaking."

The Appellant misstates the terms of the earlier agreements when it says at page 97 that the factor paid all taxes. The provision in Paragraph 8 (R. 219) is only that the agent shall pay all sales or similar taxes, "in respect of the sale of products sold and distributed by the agent hereunder," and that "the Agent shall make all

reports required by public authorities in respect of such sales." It is significant that this does not require the agent to pay ordinary personal property taxes on the consigned stock.

Moreover, the same paragraph expressly permits the agent to add excise taxes to the price, which addition "shall be reflected in the price and properly stated in the price list," thereby passing the tax to the consumer. Since the agent is the party on the ground, handles the transaction with the customer and has the contact with the local authorities, it naturally has the duty to report to the local authorities and to see to it that local laws imposing sales or similar taxes are complied with. Masonite could not possibly assume or assure the discharge of such obligations.

Insurance

The Appellant also points to the provision in Paragraph 8 (R. 219) that "the Agent agrees, at its own expense, to carry adequate insurance" * * * "covering all products consigned to it."

But this provision really works against the Appellant, for the ensuing clause requires the policies to be "payable to the Agent and to the Manufacturer as their respective interests may appear"; and such is the law anyhow. The separate Stipulations of Fact made with the individual defendants show that in the majority of instances Masonite was an expressly named beneficiary, either exclusively or in association with the Agent (R. 629, 639, 640, 662, 719).

Irrespective of any contractual provision regarding insurance, factors, though having no title, have an insurable interest in the goods. (*Harrison* v. *Fortlage,* 161 U. S. 57, 65; *Berry* v. *American Central Ins. Co.,* 132 N. Y. 49, 56.)

Agents, commission merchants, warehousemen, carriers and others having the custody of and responsibility for goods in their possession may insure them in their own

names and in case of loss may recover the full amount of insurance, satisfying their own claims first and holding the residue for the owners.

Home Insurance Co. v. *Baltimore Warehouse Co.*, 93 U. S. 527, 543;
California Insurance Co. v. *Union Compress Co.*, 133 U. S. 387, 409;
Waring v. *Indemnity Fire Insurance Co.*, 45 N. Y. 606, 611;
Berry v. *American Central Insurance Co.*, 132 N. Y. 49, 56, and cases there cited;
Mechem on Agency, 2nd ed., Sec. 2521;
Mitchell Wagon Co. v. *Poole*, 235 Fed. 817 (C. C. A. 6th—1916);
In re Columbus Buggy Co., 143 Fed. 859 (C. C. A. 8th—1906).

A fortiori is this true of a *del credere* factorage.

Alleged Absence of Disclosure of Relationship

In *Taylor* v. *Fram* (C. C. A. 2), 252 Fed. 465, 469, and repeated by the same court in *In re Klein*, 3 F. (2d) 375, 379, it was said:

> "We know of no rule of law which makes it incumbent upon one who receives goods upon consignment to sell that he should advertise the fact of his agency to his customers; and we do not attach any importance to the nondisclosure by the bankrupt that he received the goods in his capacity as an agent."

To the same effect, see *McCallum* v. *Bray-Robinson Clothing Co.* (C. C. A. 6), 24 F. (2d) 35, 37.

Sale by Factors Under Their Own Trade Names

The agreements did not require the factors not to disclose the origin of the hardboard or their own relationship to the Masonite Corporation. Any such disclosure was optional with the factors. The evidence shows that in

almost all instances (as, for example, Johns-Mansville Sales Corporation, Armstrong Cork Company, The Flintkote Company, Certain-teed and Dant & Russell, Inc.) it "was generally known to the trade" and also to the factors' salesmen that the hardboard sold under the factors' trade-names was the product of Masonite (R. 629, 636, 639, 661, 670, 718). The agreement did reserve to Masonite the right to mark all products sold to the factors with such patent notice as it deemed necessary for its protection; and the evidence shows that such was the invariable practice (R. 527, 533-4).

The net result of the situation is summed up in paragraph 52 of the Stipulation of Facts as follows (R. 190):

> "Some of the defendants sold and distributed such Masonite hardboard without attaching any brands thereto and others after attaching trade names and trademarks."

From such circumstances nothing inconsistent with the relationship declared in the agreements can be deduced.

> *Ex Parte Dixon*, 4 Ch. Div. 133;
> *Graham* v. *Pupwell*, 8 Bush. (Ky.) 12;
> *In re Klein*, 3 F. (2d) (C. C. A. 2d) 375, 379.

A trademark is merely an artificial name. The principle is the same whether the factor uses his genuine name or an artificial substitute.

> *McLean* v. *Fleming*, 96 U. S. 245, 253-4;
> *Manufacturing Co.* v. *Trainer*, 101 U. S. 51, 62;
> *Menendez* v. *Holt*, 128 U. S. 514, 520-1.

Alleged Absence of Segregation and Distinguishing Marks

The Appellant's brief claims that hardboard held on consignment was not set apart from other inventory and was not specially designated.

There are several conclusive answers. Hardboard is distinctive in appearance and hence sets itself apart. The

Stipulations of Fact recite that it *was* physically set apart in the instance of almost every defendant (R. 628, 630, 633-4, 636, 639, 661, 670, 707, 718). The agreements themselves permitted Masonite "to inspect and examine the physical inventory and books of record" and to mark the consigned hardboard with a suitable patent notice (R. 221-2). That this was done is clearly shown by the proof (R. 525, 527, 534). Finally, an omission to require that consigned stock "be set apart"—whatever that phrase may mean, is not inconsistent with agency.

General Electric Co. v. *Brower*, 221 Fed. (C. C. A. 9th) 597;
McCallum v. *Bray-Robinson Clothing Co.*, 24 Fed. (2d) (C. C. A. 6th) 35;
Re Flanders, 134 Fed. 560;
Kemp-Booth Co., Ltd. v. *Calvin*, 84 Fed. (2d) (C. C. A. 9th) 377.

Omission to Hold Separately the Proceeds of Sales

The agreements did not dictate the manner in which the factors should hold the proceeds of their sales before payment to Masonite.

The decisions all hold that any omission on the part of the factors to hold separately the proceeds of the sales of consigned goods is in no way inconsistent with the relationships declared by these agreements. The decisions also hold that the proceeds of the consigned goods are held in trust for the consignor until payment is made to the consignor, even though there is no express agreement between the parties to that effect.

Union Stock Yards Bank v. *Gillespie*, 137 U. S. 411;
In re Warner-Quinlan Co., 86 F. (2d) (C. C. A. 2d) 103;
Dryden v. *Michigan State Industries*, 66 F. (2d) (C. C. A. 8th) 950;
Cable v. *Iowa State Savings Bank*, 197 Ia. 393.

Payment of Freight

We cannot see how the relationship was affected in the least degree, whether, on a shipment to consigned stock, Masonite paid the freight and then paid the factor a lesser compensation, or whether the factor paid the freight and received a correspondingly greater compensation.

In either event, the result was the same. The freight was part of the cost of doing the business.

Requiring the factor to pay freight on hardboard consigned to and stored at its various warehouses was a logical treatment because the hardboard so shipped to the factor was stored there for its primary convenience. It was perfectly logical and proper to place this burden upon the factor if he chose to handle the goods in this way for his own advantage and convenience.

Moreover, the factor was less likely to stock up with an inordinate inventory, if it bore the outlay for the freight.

In addition to the *General Electric Co.* case, 272 U. S. 476, see:

> *Ludvigh, Trustee* v. *American Woolen Co.,* 231 U. S. 522 (1913);
> *In re Galt,* 120 Fed. 64 (C. C. A. 7th—1903);
> *In re Wright-Dana Hardware Co.,* 211 Fed. 908 (C. C. A. 2d—1914).

The claim that the Agent was obliged to remit to Masonite on consigned goods in advance of payment by the customer, is both irrelevant and inaccurate.

(1) The agreement of October 10, 1933, with the Celotex Receiver, and those like it with the other defendants, required the Agent to remit to Masonite as follows (R. 219):

1. One-half of the list price (minus Agent's discount) "shall be *advanced* by the Agent within twenty

(20) days after the close of the calendar month in which the order is shipped by the Manufacturer."

2. "The balance thereof shall be *paid* within twenty (20) days after the close of the calendar month in which such shipment is made of hard board products sold by the Agent to its customers."

3. "In event the Agent directs the Manufacturer to ship goods directly to its customers, the Agent shall *pay* the entire amount due the Manufacturer within twenty (20) days from the close of the calendar month in which the product is shipped." (Italics ours.)

In a relationship of factorage—particularly a *del credere* factorage—the terms of the mutual considerations lie within the realm of free contract. The relationship represents mutual privileges and benefits; and the parties can mutually set such terms as they see fit for the privileges and benefits so exchanged.

(2) Moreover, the factual assumptions in the Appellant's brief are not well founded.

The credit terms on which the factor was selling to its customers provided for 2% discount if payment were made within ten days, although the customer had the privilege of paying the net sale price at any time within sixty days (Price lists, Ex. S-55, not printed).

Thus, in all cases where the factor's customer took advantage of the 2% discount by making payment within ten days, the factor would have been paid *before* it was required to make any payment to Masonite. If substantially all customers took advantage of this privilege of paying the net amount with 2% discount, the factor would have had the use for at least ten days of a very considerable sum of money before being required to remit to Masonite.

Obviously, the arrangement between Masonite and the factor was intended to be a rough means of averaging the expectations of payments by customers, and to supply definite dates for the payments to Masonite *on an aggregate*

basis, rather than involving both Masonite and the factor in the bookkeeping burden and expense of handling payments as and when each customer paid to the factor within the period of credit which the factor could extend.

How far, under this method, the factor would actually be paying on the average before or after payments by the customers, could not be foretold.

(3) The provision requiring such advance payments was eliminated in the *del credere* agreements of October 29, 1936. Masonite did retain the option, exercisable by it on prior notice, to require payments in percentages similar to that required under the old agreements; but such option has never been exercised and advances have never been required. (Stipulation, par. 48, R. 189.)

(4) Furthermore, even if these payments actually were "advances", nevertheless it has been an immemorial custom for factors to make advances against merchandise consigned to them. The common law long ago recognized this practice and gave the factors a lien for such advances.

> *In re Flanders,* 134 Fed. (C. C. A. 7th) 560;
> *U. S. v. Villalonga,* 90 U. S. 35, 42;
> *Commercial National Bank v. Heilbronner,* 108 N. Y. 439;
> *H. Seay & Co. v. Moore,* 261 S. W. (Tex. Com. Ap.) 1013, 1015, rehearing denied 265 S. W. 376;
> *Cameron v. Crouse,* 11 App. Div. (N. Y.) 391;
> *Mechem on Agency,* 2nd ed., Sec. 2561.

(5) But even if the factor did make payment to Masonite before having received full payment from its customers, the situation is not different in principle from the case where the *del credere* factor pays with respect to sales made to customers who become delinquent in their payments. (*General Electric Co. v. U. S.,* 272 U. S. 476, 484; *General Electric Co. v. Brower,* 221 Fed. (C. C. A. 9th) 597; *In re Flanders,* 134 Fed. (C. C. A. 7th) 560.)

The claim that the 1933 and 1936 Agreements imposed no restrictions on the amount of consigned hardboard which the factors might obtain for their inventories, is contrary to the facts.

In the first place, Masonite was required to make its hardboard products available to the factor only "in such quantities as may be reasonably required by the Agent to enable it to fill its orders" (par. 4, R. 217).

Moreover, overstocking was effectively braked through the requirement that the factor should or could be called on to advance one-half of the difference between the list price and the factor's discount within twenty days after the close of the calendar month in which the order was shipped by Masonite (R. 218, 275).

Other brakes on overstocking were the provisions that the factors should pay to or indemnify Masonite for all necessary freight or transportation costs on consigned stocks; and the further provision that the factor should at its own expense carry adequate insurance on the hardboard consigned to it (R. 219). See also paragraphs recognizing the right of Masonite to reserve manufacturing capacity for its sales "on its own account" (R. 222, 270).

The claim of a vendor-vendee relationship because of the provisions governing return of merchandise on termination of the agreement, is without any merit. Moreover, those provisions were eliminated in 1940.

(1) Paragraph 15 of the agreement of October 10, 1933, provided that the Agent should have the right to cancel the agreement upon six months' notice in writing; and that (R. 222):

> "In event of termination of this agreement for any reason, the Agent shall fully comply up to the date of the termination period and shall at said time purchase and pay for all products consigned to it and unsold, or at the option of the manufacturer shall return all or

> so much thereof as it may request. On all goods returned, the manufacturer shall refund to the Agent all advances made by the Agent to or for the account of the manufacturer in respect of such goods, including freight and reasonable handling charges."

The 1936 agreement was to the same effect (R. 288-9). These provisions favored rather than disfavored the Appellee's case. This solitary use of the term "purchase," occurring in connection with what shall be done *on termination,* emphasizes the repeated provisions elsewhere that as long as the agreed relationship lives title remains in Masonite and there has been no "purchase."

(2) The parties had a free right to contract as to the unsold remnant on hand when the agreement terminated.

The case of *In re Renfro-Wadenstein,* 53 F. (2d) (C. C. A. 9th) 834, is directly in point. There the Court said (pp. 836-7):

> "To maintain the claim that the agreement is a conditional sales contract and not a consignment, great stress is laid upon the option given to the consignor to terminate the contract and require the consignee to pay for the goods on hand. In such a case, the consignee becomes bound to take and pay for the balance of merchandise on hand at the option of the consignor. It has been held in a number of cases that such an agreement is insufficient to convert what would otherwise be a contract of agency or consignment into a conditional sale."

See, to same effect:

Wood Mowing & Reaping Machinery Co. v. *Vanstory,* 171 Fed. (C. C. A. 4th) 375;
Mitchell Wagon Co. v. *Poole,* 235 Fed. (C. C. A. 6th) 817;

McCallum v. *Bray-Robinson Clothing Co.*, 24 Fed. (2d) (C. C. A. 6th) 35;

In re Galt, 120 Fed. (C. C. A. 7th) 64;

John Deere Plow Co. v. *McDavid*, 137 Fed. (C. C. A. 8th) 802;

Metropolitan National Bank v. *Benedict Co.*, 74 Fed. (C. C. A. 8th) 182;

Bransford v. *Regal Shoe Co.*, 237 Fed. (C. C. A. 5th) 67.

(3) In the event Masonite requested the factor to return the consigned stock upon termination of the agreement, Masonite was obligated to pay all freight and handling charges on the merchandise so returned to it. This fact further tends to support the consignor-consignee relationship.

John Deere Plow Co. v. *McDavid*, 137 Fed. (C. C. A. 8th) 802;

McElwain-Barton Shoe Co. v. *Bassett*, 231 Fed. (C. C. A. 8th) 889.

In *Mitchell Wagon Co.* v. *Poole*, 235 Fed. 817 (C. C. A. 6th, 1916), the fact that consignor should pay freight on vehicles ordered returned was stressed by the Court as indicating a bailment.

(4) By the supplemental letter agreements, effective September 1, 1940, amending the *del credere* agreements, the provisions of Section 16 of the 1936 agreements relative to the results of termination were materially changed (Exhibits S-49, S-50; R. 399, 405).

Under this amendment, upon termination of the agreement, the factor had the unconditional right to return to Masonite all or any part of the consigned stock on hand, excepting only damaged stock for which the factor must account to Masonite as if sold. Freight and handling charges on stock so returned must be paid by Masonite.

All advances (if any) made by the factor to Masonite on account of the stock so returned, including all freight charges, must also be repaid by Masonite.

Therefore, any question which might have existed under Masonite's former option to require the factor to purchase the unsold stock on hand, was effectively eliminated from the 1936 and prior agreements by the aforesaid modification of September 1, 1940. (*Standard Oil Co.* v. *U. S.*, 283 U. S. 163, 181-2.)

POINT IV

The agency agreements did not operate unlawfully to fix prices or divide markets.

The Appellant asserts that even though Masonite could lawfully enter into a *del credere* agency agreement, nevertheless the particular agency agreement contained illegal provisions fixing prices and dividing markets. These are alleged to be four in number:

(1) Agreement of Masonite to give a specified period of notice to the agents before changing prices.

(2) The alleged illegal fixing of prices with respect to "shorts" or "longs."

(3) An alleged attempt to regulate the price of unpatented building materials sold in combination with hardboard.

(4) Masonite's retention of the industrial market.

We will take these up in the order set.

SUBDIVISION I

The agreement of Masonite to give a brief notice of change in price does not constitute an agreement to fix prices and is not illegal.

It is asserted that (App. Br. p. 61), because Masonite agreed to give ten days' notice to the agents of an increase in its published list prices and forty-eight hours' notice of a decrease in its published list prices, this incidental and altogether reasonable deference to common decency and fair play constituted an illegal contract to fix prices.

A similar provision was sustained by this Court as a proper incident to sale of goods on consignment in *United States* v. *General Electric,* 272 U. S. 476. See paragraph (13) of license to Westinghouse on page 5 of the Record on Appeal in that case.

The Appellant in the footnote to its brief (p. 86) attempts to distinguish this on the ground that the provision was there contained in a license contract and not in an agency contract. There is no validity in law for such distinction. The provision is a proper incident where the right to fix prices is reserved; and that right is of the same character whether it is exercised by a patent owner in a license or by a principal in a contract of agency.

In the instant case the agents were distributors with offices, warehouses and dealers scattered across the entire country. They were constantly soliciting customers in many states. If Masonite jiggled the price up and down without reasonable notice to them, they would be the immediate victims, and the very organization which they utilized to serve Masonite would be their undoing. The Sherman Act does not bar common decency and fair play by a principal towards his agent.

The rule in *United States* v. *Trenton Potteries,* 273 U. S. 392, relates only to contracts between numerous persons, none of whom had any lawful authority to control the price at which the other sells. The same comment ap-

plies to the decisions in *Ethyl Gasoline Corp.* v. *United States*, 309 U. S. 436 and to *United States* v. *Socony-Vacuum Oil Co.*, 310 U. S. 150.

As a matter of common honesty, a principal does not authorize some of his agents to undersell other agents competing for business from the same class of customers.

Furthermore, any such price discriminaton is expressly prohibited by the 1936 amendment of Section 2 of the Clayton Act (U. S. C. Tit. 15, Chapter 1, § 13), commonly known as the Robinson-Patman Act. That amendment provides, *inter alia*:

> "It shall be unlawful for any person engaged in commerce * * * to discriminate in price between different purchasers of commodities of like grade and quality, where either or any of the purchases involved in such discrimination are in commerce, where such commodities are sold for use, consumption or re-sale * * * and where the effect of such discrimintaion may be substantially to lessen competition or tend to create a monopoly in any line of commerce, or to injure, destroy or prevent competition with any person who either grants or knowingly receives the benefit of such discrimination, or with customers of either of them."

Sales made by Masonite's own salesmen to the dealer trade at a price less than that at which an agent made sales of the same product to other dealers in the same competing area would constitute price discrimination in plain violation of the terms of the Act, and would subject it to liability for suits to recover triple damages by the dealers so injured. Masonite would likewise be so liable in the event of such practice by the agents. The rule of common honesty is now statutory policy.

A principal may protect his own business from chaos and disintegration by adopting reasonable regulations for equal and fair treatment of his agents in their relations with each other and with himself (*Board of Trade* v. *United States*, 246 U. S. 231).

SUBDIVISION II

The point which Appellant attempts to make concerning the incidental provision in the earlier agreements for getting rid of the by-product called "shorts", in no way rendered those agreements illegal or converted them into sales agreements. Furthermore, the provision and practice thereunder were eliminated long prior to trial.

(1) The true situation in respect of "longs" and "shorts" is admirably summed up in the Court's finding (Finding 35, R. 881):

> "35. Hardboard is made in various types and thicknesses, but in one standard size, to wit, 12 feet by 4 feet. When these standard sizes are cut by Masonite at the request of other defendants in pieces of less than 5 feet in length, such pieces are called 'shorts' and are not generally adaptable for use in the building trades. The remainder of the board so cut is known as a 'long.' The provisions in the aforesaid agreements of October 10, 1933, and in the similar agreements referred to in Findings 17, 19, 23, and 25, relating to 'shorts' and the disposition thereof, were all made for the convenience of the respective parties to such agreements other than Masonite, and such 'shorts' were in point of fact an incidental byproduct resulting from the fact that the distributor's customer desired to obtain a board shorter than standard. Such provisions constituted a reasonable method of dealing with such incidental byproduct, and were entered into without any intent or purpose to restrain or monopolize interstate or foreign trade or commerce. It was necessary for Masonite to dispose of such 'shorts' at prices much lower than the standard length prices and in whatever trade channels it could find to absorb them."

This finding was sustained by abundant proof (R. 509, 537, 679, 680).

(2) Thus these provisions as to "shorts" were in the nature of a favor to the factors. Masonite was geared to

manufacture only in a single 12 foot length. If shorter lengths were desired by the factors, and if Masonite were called upon to perform the services of cutting the boards into different lengths, then Masonite was entitled to protect itself against an accumulating supply of shorts which might be hard to dispose of and might have a less value.

Since the cut was at the factor's request or for the benefit of it or its customer, the requirement that the factor in the end account to Masonite for the full length board was not unreasonable.

(3) The parties had a clear right to deal specially with an incidental by-product resulting from the fact that the factor desired to deliver to the customer a board less in length than standard. The resultant short was not *the* business between the parties, but rather was a potential loss from that business and a minor incident of it. Masonite had a clear right, in consequence, to require that the factor approach Masonite as for a full length board.

(4) In the realm of reality, the point which the Appellant is now trying to make concerning "shorts", actually approaches the maxim *"de minimis non curat lex."* In its practical aspects it cannot possibly be the basis of, or a justification for, this suit.

In the first place, even under the 1933 and 1936 agreements, no obligation by the Agent to account for the "short" arose until after the "long" had been sold. Until its sale, title to all parts of the board remained in Masonite (Par. 8, 1933 agreement, R. 219, 220; Par. 9, 1936 agreement, R. 281). Moreover, under those agreements, the Agent could at all times sell the "short" to other than the building trade for any price it pleased (R. 220, 281-2, 509).

In addition, at the time of making the 1936 agreement, a supplemental agreement was made with Celotex (which by reason of the "most favored nation" clause was applicable to all other Agents) whereby the Agent might

order "quartrboard" "longs" without any obligation at all to dispose of the resultant "shorts" (R. 325).

Next, on November 9, 1937, long before this suit was begun, Masonite advised all its Agents that as to all other hardboard products which might be cut under the agreements, they might order " 'longs' without any obligation on their part to take the resultant 'shorts' " (R. 809).

Next, by the supplemental letter agreement of August 26, 1940 (R. 394), the whole matter of "longs" and "shorts" was entirely eliminated. After that date there remained no vestige of any requirement to account for a full size board upon the sale of any portion thereof. From that date and in all cases, the Agent simply ordered the size which his dealer or wholesaler demanded; and he accounted therefor only after the sale was made.

Finally, the 1941 agreement, effective April 1, 1941, not only followed the changes put into effect by the August 1940 letter, but eliminated all reference to either "longs" or "shorts" (R. 407).

Thus, in actual reality and in the field of practical affairs, the point which the Appellant is now making concerning "shorts" never was anything but a very minor and incidental matter wholly apart from the substance of this suit; and, even as such, it completely disappeared long ago.

No court would found a judgment in this case upon such a slight incident of one of several methods of handling this mere by-product, particularly as that particular method was wholly abolished by the supplemental letter agreements which took effect in 1937 and 1940 (Exhibits 18, S-49, S-50). (*Standard Oil Co.* v. *U. S.*, 283 U. S. 163, 181-2.)

SUBDIVISION III

Masonite did not, by any of the agreements or otherwise, fix or control the price of unpatented materials.

(1) The Appellant tries to argue that Masonite controlled the price of insulation board when sold in carload lots with hardboard.

There is nothing to that effect in any of the agreements in evidence; and it is not the fact. This practice was for the benefit of the agents rather than Masonite (R. 678). Furthermore, it would seem quite ridiculous for Masonite, whose interest in insulation board was relatively small, to be using these hardboard agency agreements in an effort to control the entire insulation board industry, in which there were many manufacturers (R. 518, 683, Ex. SS-16, R. 839).*

The Appellant is confronted *in limine* with a definite finding against it (Finding 33, R. 881):

> "* * * The said agreements were never used for ulterior purposes; nor was any attempt made by Masonite or the other defendants to control or affect in any wise the sale or price of insulation board or other products."

(2) In its Statement of Facts (pp. 47-52 of its Brief) the Appellant relates items of alleged evidence indiscriminately, with no regard to the full context or the chronology or the terms of the written agreements themselves.

An example of the unfair method of approach to this matter appears in the footnote, page 48 of the Appellant's brief. There the Appellant states that Mr. Gillies, a former vice-president of Masonite, testified " 'in all probability' he threatened to cut prices on insulation board unless Celotex agreed to the 'agency' relationship." The Appellant takes out of the context a single phrase from the Record at page 489, whereas the full context demonstrates conclusively the unfairness of such a method (R. 489):

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* As a matter of fact, in 1939 Masonite's insulation board sales were less than 7% of the total insulation board sales of the various agents (Ex. SS-16, R. 839).

"Q. Did you say anything to Mr. Dahlberg about the price of insulation board in the course of these conversations? A. No, sir. Insulation board never entered into the subject. So far as we were concerned, we were not interested in it.

"Q. Do you recall whether any time during 1931 and 1934 you discussed the price of insulation board with Mr. Dahlberg? A. In all probability.

"Q. Do you recall more precisely when this conversation took place? A. Probably a Code Authority meeting.

"Q. Any discussion except at the Code Authority meetings? A. No.

"Q. Were any of those discussions with respect to the price of insulation board carried on in connection with the negotiation of this contract of October 10, 1933? A. No.

"Q. Did you ever suggest to Mr. Dahlberg that if you did not reach some understanding on the hardboard situation, that Masonite would cut the prices of insulation board? A. In all probability. I don't know. I could not answer that. It is a long while ago" (R. 489).

(3) It is conceded by the Appellant that hardboard was frequently sold and shipped in carload lots at the same time and in conjunction with insulation board. This was an advantage to the agents rather than to Masonite (R. 678), but it facilitated subterfuge. As explained by Mr. Dahlberg, President of The Celotex Corporation (R. 582), a "combined bid" designates a quotation for hardboard and insulation board for a single price. Such a method of quoting prices, he explained, could be and was employed to conceal the fact that the agent was secretly cutting the price of hardboard specified by Masonite (R. 582). Obviously, Masonite was entitled to protect itself against this furtive commercial sabotage.

(4) The Appellant ignores the fact that no provision relating to the use of "combined bids" appeared in the 1933 or any subsequent contracts until the revision in October, 1936. Perhaps this is the reason that on page 47 of its brief the Appellant states:

"The evidence *suggests* that from the very beginning of the arrangements Masonite was motivated to some degree by a desire to stabilize the price of insulation board." (Italics ours.)

Mr. Gillies testified (R. 517, 518) that by the words the "entire industry" in his letter of December 28, 1934 (mentioned at page 48 of the Appellant's brief), he referred solely to the hardboard industry. In reading this letter we must bear in mind that there was no contract provision as to "combined bids" in any agreements in force at that time. The letter of C. F. Ames, Jr., Manager of the Building Material Department of Johns-Manville, dated September 5, 1933 (Exhibit 24, R. 818), was written *before* there were any *del credere* agency agreements in force, and is no proof as to Masonite's motives even were such motives relevant.

(5) Reference is made by the Appellant to the "notice and warning" sent to Celotex and others with respect to this matter of sabotaging the hardboard price, on February 6, 1935, more than a year prior to the first contract provision with respect to combined bids (Exhibit 8, R. 800-801).

But this notice specifically disclaimed any intent to influence prices on other materials and products. It says (R. 801):

"The Manufacturer does not intend to and will not in any way influence or attempt to influence the prices at which any materials, not covered by its letters Patent and the Agency Agreement and License Option, shall be sold by others. But, when in conjunction with or as an inducement for the sale of Hardboard Products of Masonite Manufacture by its *del credere* Agents, such other materials are given to the purchaser or sold to the purchaser at prices which are manifestly below the prices and maximum terms and conditions of sale at which a like quantity and quality of such other material would be sold when not accompanied by the sale of the Hardboard Products of

Masonite Manufacture, this constitutes a reduction in the selling price of the Hardboard Products of Masonite Manufacture below the minimum prices and maximum terms and conditions of sale established by the Manufacturer for itself and its *del credere* Agents. Such an act is in violation of the Agency Agreement and License Option and constitutes a serious injury to the business of the Manufacturer and its *del credere* Agents."

It is manifest that since Masonite had the right to designate the price at which its agents sold patented hardboard, it had the ancillary right to take reasonable precautions against subterfuge. With this objective in mind, there was inserted in the 1936 agency agreement the specific provisions (set out in the footnote below) of which the Appellant quotes only a portion and which, it is submitted, it misconstrues.*

The conclusion is inevitable that these provisions were merely an attempt to prevent a fraud upon Masonite.

(6) At the trial, on examination of Bror Dahlberg, President of Celotex Co., and of Robert G. Wallace, Vice-Presi-

* "(c) That if it shall publish a price list containing prices on other products (whether or not of its own manufacture) and on the Manufacturer's hardboard products, or submit a bid or quotation for, or make a sale of other products together with the Manufacturer's hardboard products, the prices for the Manufacturer's hardboard products shall in every instance be set forth entirely separate from and independent of the prices on such other products included in such price list, bid, quotation or sales invoice; and

"(d) That each such price list, bid, quotation, and offer of sale shall be made in such form and manner that the purchase of products other than the Manufacturer's hard board products shall not be dependent upon or in any manner conditioned upon the purchase of the Manufacturer's hardboard products included therein or vice versa; and

"(e) That it will not, either directly or indirectly, through discounts, rebates, quantity prices or any other special concession or allowance of any character whatsoever in respect of other merchandise which it may sell or offer to sell, reduce the current minimum selling prices in effect on Manufacturer's hardboard products, either as to class of trade or as to quantity bracket (R. 286)."

dent of Masonite, as witnesses for the Appellant, they explained the nature of "combined bids," and testified that there was no concerted price on insulation board (of which, of course, there were various kinds); that the phrase (R. 286) "regular established prices" in a sentence in the 1936 agreement referred merely to whatever price the Agent was regularly quoting on such other building material; and that Masonite "didn't care" at what price the Agents sold the other products, whether combined with hardboard or not; and that as to price "we insisted only on the hardboard part of the car" (R. 525, 527, 582).

However, by reason of the Appellant's claimed but erroneous construction of this contract provision adopted as a means of preventing a fraud upon Masonite, Masonite in its 1941 contract revised the provision with respect to "combined bids" so that it read as follows (R. 409):

> "Agent shall not sell hardboard products on combined bids or in any other manner which does not fully disclose to the buyer the price, terms and conditions of sale and delivery on which such hardboard products are offered for sale."

The Appellant reluctantly concedes that this provision cannot be objectionable (Footnote, p. 64) but ungraciously adds:

> "Skepticism is permissible as to whether the surface of this provision is an adequate guide to the present intention of the parties."

SUBDIVISION IV

Masonite properly retained to itself the right to sell to the industrial field.

The Appellant's position in this matter is paradoxical. In one breath Masonite is criticized because it makes sales through agents instead of making them directly, and almost in the same breath it is criticized because it makes sales to the industrial field directly and does not permit

agents so to do. It is difficult to find any basis or logic for such a claim. Concededly, Masonite has a right to make its own sales without violating any law.

The nature and character of the industrial field and the reasons for Masonite's course are clearly set out in the Court's Finding (R. 881):

> "36. In addition to the sale of hardboard for use in the building trades, hardboard is sold to industrial purchasers for use in manufacturing or fabricating processes. In the manufacture of hardboard it is not possible to produce all first quality products and a substantial amount of 'seconds' or off-grade board is produced which, if sold for use in the building industry, would give Masonite a bad reputation as to the quality of its product, but which is wholly satisfactory for various industrial uses. Industrial purchasers are also able to use a substantial amount of 'shorts.' The problems relating to sales to industrial purchasers are very different from those relating to sales for use in the building industry and require trained industrial salesmen capable of performing engineering and other services. Masonite had its own trained industrial salesmen. Masonite acted reasonably and within its rights in reserving to itself exclusively, under the aforesaid agreements, the right to make direct sales to industrial purchasers in order to find a market for 'seconds' and off-grade board and to prevent such 'seconds' and off-grade board from being sold to the retail lumber dealer and jobber trade to the detriment of its standard product and the reputation thereof, and in order to have a substantial market for its excess of 'shorts'."

This finding is based on the sworn and uncontradicted testimony of the president and vice president of Masonite (R. 509, 510, 537, 679, 680).

Appellant's brief at page 62 makes the following remarkable statement:

> "The agreements reserved to Masonite substantially all sales of hardboard for industrial uses. This is an illegal division of markets."

It cites two cases as authority.

> *Addyston Pipe and Steel Company* v. *United States*, 175 U. S. 211;
> *Continental Wall Paper Company* v. *Voight & Sons*, 212 U. S. 227.

Each deals with agreements among numerous manufacturers of the same article, dividing up the territory among themselves and fixing prices. They have no application to the facts in the case at bar. The most recent decision of this Court constitutes express authority for the legality of Masonite's practice, *a fortiori: General Talking Pictures Corp.* v. *Western Electric Co.*, 304 U. S. 175, 305 U. S. 124.

POINT V

In setting prices and in retaining to itself the manufacture of hardboard, Masonite acted within its rights under its patents, and never abused its patent privileges.

The Appellant's argument seems to come down to an admission that Masonite as patent owner could set the prices at which its own servants and paid employees sold, but a denial that it had the right to set the prices at which its "agents" sold. Said its trial counsel in summation (R. 731):

> "The Court: Well, why can't he (the patent-holder) set his own salesmen's price on which the salesmen are authorized to make a sale?
> "Mr. Cox: I think he may do that. I think he may."

This attempted distinction between a salesman and a selling agent, the Appellant now renews in its brief here (p. 99):

> "It may well be that without violating the anti-trust laws a trader can control the price at which his servants or paid employees shall sell his own property."

One of the oldest maxims of the law is: *Qui facit per alium facit per se.* Is this now to be true when an owner tells a servant or paid employee to sell at a price, but not when he tells an agent or factor to sell at a price? Any such discriminative restriction (whether under the common law or the Patent Act) on an owner's right to act through representatives, would raise some very serious constitutional questions and would be a revolutionary novelty.

SUBDIVISION I

Control of prices was exercised solely by Masonite as patent owner.

Here again we have specific Findings of the Court on this subject. Finding 22, R. 878:

> "No defendant, nor any representative of any defendant, ever suggested or requested the insertion in any agreement with Masonite of any provision for the fixing of prices or the limiting of the class of customers to which it might distribute hardboard or the limiting of the manufacture or production of hardboard."

and Finding 32, R. 880:

> "Masonite under the various written agreements above described exclusively determined and determines (to the extent therein provided) the price at which the other respective parties may sell the hardboard products of Masonite, which price is the price at which Masonite itself sells; and there never had been any influence or control or any attempt by the other defendants to influence or control such determination by Masonite, or by Masonite to influence or control the price after title to the hardboard products has once passed."

These Findings cannot be seriously attacked. The first is supported by abundant evidence (R. 489, 515, 592,

635, 668-9, 708-9, 716). The second is equally well supported by the explicit testimony of Ben Alexander, President of Masonite (R. 691).

Testimony to the same effect was given by Bror G. Dahlberg, President of The Celotex Company (R. 593), and by the officers of other agents, *e. g.*, Insulite (R. 626), Wood Conversion (R. 631), National Gypsum Company (R. 633), Armstrong Cork (R. 659) and Johns-Manville (R. 709). There was no contradiction.

SUBDIVISION II

The Celotex and Insulite companies were prevented from manufacturing hardboard solely by reason of Masonite's basic patent monopoly.

(1) That the invention by Masonite of hardboard and its process of manufacture was the fundamental and basic invention and that the patent was dominating cannot be the subject of dispute in this case. (See pp. 36-39, *supra.*)

The circumstance that Celotex had patents which were later applied for and related to minor details of manufacture is obviously no defense.* If Celotex' patents were of any value defensively, it should have asserted them in the litigation. It did not and could not. It is conceded that the litigation was long, expensive and bitterly contested (Finding 10, R. 874; R. 184, 727).

* It has nine patents in all, the applications for which, with three exceptions, were filed in 1930, about five years after Mason's application was filed. Of the exceptions, one was filed June 29, 1929, and two were filed in 1931. These patents all are definitely for subordinate inventions. 1,880,965, 1,880,971 and 1,880,972 deal with termite and insect proofing by adding insecticides; 1,935,196 adds arsenic; 1,973,637 treats the presence of lignins as disadvantageous and adds an alkali, such as calcium chloride; 1,881,418 merely adds small amounts of alkali; 1,909,213 relates to drying in two steps, and interposes a preliminary tunnel drying prior to the pressing of the product; 1,949,917 shows a specific form of press; and 1,942,723 glues a surface sheet onto a sheet of hardboard.

Not only was Celotex' manufacture stopped by the decree of the Court of Appeals for the Third Circuit, but it was nearly as effectively stopped by decree of the District Court holding non-infringement as to board made only from bagasse. The best that Celotex found it could do without the use of wood was to make boards that were "lighter weight and lesser strength than Masonite's hardboard products" (R. 181, 575, 783).

(2) Insulite was prevented from manufacturing hardboard for the same reasons that obtained in the case of Celotex, *i. e.*, infringement of Masonite's patent No. 1,663,505.

Suit was brought in 1934 by Masonite against Faxon Lumber Company, a dealer in Insulite's products, which suit was defended by Insulite. Masonite's patent having been adjudicated by a Court of Appeals, Insulite was obviously threatened not only with a final decree for injunction and accounting but also with a motion for preliminary injunction, which would undoubtedly have been granted. Its position was, therefore, doubly precarious.

The Appellant having offered no proof that Insulite's patents would have afforded it any protection in the suit against it by Masonite, and not having in the court below contested the scope of validity of Masonite's patents as bearing on Insulite's process, is estopped from making such claims here. Not only did the Appellant offer no proof on these points, but it virtually conceded infringement (R. 511):

> "The Court: Well, I assume that the Masonite Company had a patent monopoly on hardboard and nobody else could supply hardboard in the same car with softboard.
>
> "Mr. Cox: That is so; but it is our position, your Honor, that the hardboard or the board made by Insulite and by Celotex perhaps did infringe the patent. As to that, I take no position. But it was substantially the same physically is our position."

In view of this statement, the Appellant has no right now to question infringement.

Moreover, the present action is not a patent suit, and the merits of an ancient infringement controversy are not pertinent.

Since, however, there is so much talk in the Appellant's brief about Insulite's patents, we have presented an analysis thereof in Appendix A.

Insulite's process is described in Insulite's own Stipulation of Facts with the Appellant (R. 623). A comparison of this with Masonite's patent 1,663,505 shows that the process described by Insulite is explicitly disclosed and claimed in the Masonite patent 1,663,505. Insulite's use of grindstones rather than steam is one of the alternatives specified in the Masonite patent for disintegrating wood (R. 195); and it is obvious that disintegrating wood by grinding leaves the lignins to serve as binders as well as the other constituents of the wood. Furthermore, Masonite's patent, precisely as in the Insulite process, interposes a wire mesh screen between the sheet and the pressing surface in order to permit the escape of moisture, and permits the addition of sizing material for waterproofing, and also the addition of some binder material such as the oil or emulsion described by Insulite (R. 195, 197).

SUBDIVISION III

There has never been any unlawful combination or pooling of patents as now charged in Appellant's brief. Moreover, such charge is not the case presented in the Bill of Complaint.

The Appellant states (pp. 53-4):

> "Insulite at the present time owns fourteen patents relating to hardboard or to methods for its manufacture. The claims of these patents include claims on the product, on processes for producing the product, and on machinery used in the production. * * * Celotex

now owns eight patents that relate to hardboard. These patents also claim the product, processes for producing it, and machinery used in production. * * * Not one of the 'agents' has attempted to use the patents which it owns, or any alternative process, for the commercial production of hardboard."

(a) *As to Celotex*

Wholly disregarding the permanent injunction in the patent suit, the Appellant now contends that as a result of the agreement of October, 1933, Celotex somehow "abandoned assertion of its own patent claims" and that "this arrangement accomplished the same purpose that would have been served had Celotex granted an exclusive license to Masonite" (p. 67).

We have the normal situation in which an infringer which has secured later issued patents of a subordinate character cannot make use thereof, being enjoined from making the product because it insisted on infringing the basic patent of a competitor.

Nor could Masonite make use of Celotex' patents. It is a matter of conceded fact that Masonite never received any license from Celotex under any of its patents.

If Celotex' patents were of any value defensively or offensively, it should have asserted them in the patent litigation. The present suit cannot be turned into a retrial of the infringement ~~action or~~ turn upon speculation as to the outcome of further infringement actions which Celotex never chose to risk. (See pp. 73, 74, *supra.*)

(b) *As to Insulite*

The Appellant having completely failed to make out a case of combination or conspiracy originating on October 10, 1933, as charged in the Complaint, is now seeking to substitute a new and different case based upon a wholly unsupported claim that five years later, to wit, in 1938, trade and commerce were restricted because Insulite licensed Masonite under some patents. There is no relevancy in, or foundation for, such a claim.

By 1938 Insulite and Masonite had been thrown into interference in the Patent Office over patent applications relating to the use of heated rolls in the manufacture of a "pressed board"; and Masonite was also contending that Insulite was infringing its patents in Finland. These matters had all arisen since the execution of the Insulite agency agreements in 1935; and they were ultimately compromised by the agreement of February 1, 1938 (Ex. S-48, R. 384) which provided for the settlement of the interference by an examination of the facts of priority and a concession of priority to the original inventor, and, in the event the facts were not clear, by resorting to arbitration (Par. 9, R. 391). The interference issues were so settled (Par. 46, R. 188); and the patent involved in the interference relating to the use of heated rolls was accordingly issued to Insulite. The Finnish infringement matter was settled by Masonite assigning its Finnish patents to Insulite (R. 386, 393) including No. 13,282 (corresponding to U. S. No. 1,663,505; R. 394).

At that time, Insulite had a total of 8 patents and 6 applications relating to an artificial "pressed board" (R. 385). These are listed in Schedule 1 (R. 393), Ex. I-2 (R. 901). As a part of the settlement Insulite granted Masonite an exclusive license under these patents (R. 385-6). An examination of these patents shows that they all lack the fundamental character of Masonite's patent No. 1,663,505 and that 7 of them (including the one in interference) related to the use of heated rolls or other rotating devices in making "pressed board." An analysis of them appears as Appendix A to this brief. All of them dealt with specific mechanisms or subordinate processes. *None of them succeeded in avoiding the basic claims of Masonite's original patents covering the fundamental invention and the product.*

The lawful right of Masonite and Insulite to make such a settlement agreement without offending the Anti-Trust laws, is squarely recognized in the leading case of *Virtue v. Creamery Package Co.*, 227 U. S. 8, 34-37, where the agreement made closely parallels that in the case at bar.

That these patents were not in a class with the original Masonite patent is conclusively proven by the Record (p. 626), wherein it is shown that as late as December 3, 1934, in order for Insulite to manufacture 6,800,000 ft. of hardboard it required as much machinery as would produce 28,000,000 ft. of standard Insulite insulation board, and that of the hardboard so produced at least 1,000,000 feet of cull was produced in excess of cull produced from the same amount of insulation board.

This impracticable and non-commercial result is partially explained by the fact that the Insulite process for the making of an artificial hard board started with the manufacture of a board on the machines that produced soft board; and that the presses took approximately four times as long to produce the hard board as a similar quantity of soft board. The resulting board was of poor quality (R., 626). Mr. Gillies thus described it (R. 510, 514, 518):

> "It was an inferior board which, in our estimation, was hurting the distribution of hardboard, because it was sub-grade board" (R. 509) * * * "and was what we call an inferior board."

Furthermore, Insulite's artificial board was light in color and was not satisfactory to the trade (R. 624-6). A comparison of the physical exhibits (Ex. C, R. 900), being Masonite's hardboard, with Insulite's board (1-A and 1-B, R. 629), clearly shows the difference. *In fine*, the taking of the license by Masonite from Insulite did not result in any restraint of trade or commerce because Insulite could not itself use the process of its own patents for making "pressed boards" for sale in the United States without infringing Masonite's basic patents. But, on the other hand, because of this license from Insulite, Masonite (the owner of patent No. 1,663,505) could at once use Insulite's patents in the United States if it found them useful and could thus make them immediately effective in trade and commerce. Also there was no restraint because Insulite retained the right to cancel the exclusive features of the

license agreement and to use these patents itself upon terminating the agency agreement if it could find a way so to do without infringement (R. 386). This situation continued up to the time of trial. See the supplemental agreement with Insulite executed March 20, 1941, at the time of the March, 1941, *del credere* agency agreements (Ex. S-53B, R. 419).

The Appellant attempts to capitalize the mere number of Insulite's patents or applications. So absurd a basis for argument works against the Appellant. At the time of the trial Masonite had at least 50 patents.

The Appellant, however, says (p. 53):

> "Many of these fifty patents have been acquired by Masonite during the life of the 'agency' agreements."

as though there was something sinister therein. But what is the fact? 41 of these were Mason's own inventions and only 4 of them came from sources outside the corporation (R. 175). Masonite is practically the inventor incorporated. These patents all stemmed from the original hardboard patent 1,663,505.

SUBDIVISION IV

There was no unfair use of patents by Masonite.

(1) Here again the Appellant is faced with a specific finding, to wit (Finding 40, R. 882):

> "There has been no monopoly or restraint in the manufacture, use or sale of hardboard other than the monopoly and restraint granted by valid U. S. Letters Patent lawfully owned by Masonite. * * * No contracts or agreements were made by it or with any of the other defendants for the purpose of extending its lawful patent monopoly" (Finding 40, R. 882).

No appellee was handicapped in developing improved or competing processes or methods that would have avoided the basic patent, if such could be devised, because

the agency contracts concededly gave to each one of the agents the right to cancel the contract without cause at the agent's option. This provision enabled the agent to be assured of a supply of hardboard and at the same time carry on all the research that it desired. (See pp. 38-39, *supra.*)

Moreover, the Record shows that the scale of commissions paid to the agents afforded them very little profits (R. 540, 604, 628, 683-4). Hence, the incentive to manufacture and sell their own products if they could be produced was ever present and actively pursued (R. 591, 644-9, 721). Masonite maintained stiff competition with the agents at all times (see p. 26, *supra*), and has continued its scientific researches at all times (R. 690).

(2) As if realizing that this position may not be tenable, the Appellant retreats to another by saying (p. 71):

> "In any event this combination has had a more restrictive effect than could have been accomplished by the legal use of patents alone."

And then it gives this reason for such conclusion (p. 71):

> "This can be shown by consideration of the possible avenues open to Masonite for the exercise of its patent privilege."

Let us examine the reasons assigned by the Appellant. The first is that Masonite might have avoided all price provisions by reserving to itself exclusively the sole right to sell hardboard through its own salaried employees. In other words, the Appellant in effect contends that the directors of Masonite had no right to be of the opinion that their company could not exist, to say nothing of keeping prices down through mass production, without securing the services of large agencies of distribution.

The Appellant next says (p. 71):

> "Had it done so, the other appellees would have been impelled by powerful stimuli either to contest

the validity and scope of Masonite's patents, and to carry that contest ultimately to this Court, or else to devise an alternative process or product that would avoid Masonite's patent claims. In either case Masonite could hardly have hoped to maintain its monopolistic position."

This is pure speculation, and the facts contradict all of the Appellant's assumptions. The powerful *stimuli* were present. The Record is replete with references to large expenditures of time and money in an attempt by the various Appellees to produce a non-infringing hardboard. The Agents were not discouraged from so doing by exorbitant profits. The margin of profit to them was very small (R. 540, 604, 628, 683-4). (See pp. 38, 39, *supra*.)

(3) The Appellant's next speculation as to what Masonite *might* lawfully have done, is that it could "grant manufacturing licenses that fixed the prices at which the licensees could sell" (p. 72). This is a most welcome concession that Masonite (notwithstanding the anti-trust laws) could lawfully have made such contracts with these Agents and fixed the prices at which they might sell, if it had dealt with them on the basis of manufacturing and selling licenses and not on the basis of factorage agreements—thus cutting the Appellant's case down to a distinction between Tweedledum and Tweedledee.

The decision between alternative courses lay with Masonite's board of directors, whose good faith and integrity are conceded (R. 750), and are found by the Trial Court (R. 880, 881, 883). (See p. 13, *supra*.)

But the method of price-fixing which the Appellant now suggests as lawful would not have been as favorable to the public. By doing all the manufacturing, Masonite obtained the mass production without which the prices could not have been kept at their low level and thus hardboard kept in competition with the numerous other cheap building materials having similar uses (R. 679, 881, 883).

That this was accomplished notwithstanding increasing costs and the paying of the highest wages in the State in which the factory was located (R. 193) was due solely to concentration of the manufacturing in Masonite. The contribution of these Agency Agreements to the mass distribution essential to mass production is clearly shown by the examination of the Chart (Ex. SS-4, opposite R. 836), which also shows that the vastly increased production and sales were also due to the industrial sales which Masonite successfully developed by its engineering force, and to the sales made by the agents. (See also the Chart Exhibits, copies of which are reproduced in the Appendix hereto.) In 1939, American building material dealers were serviced by 1,362 hardboard salesmen rather than by only the 92 salesmen of Masonite (R. 618).

In addition, such mass distribution resulted in drastic reductions in consumer prices—in some instances they were reduced as much as 50% (R. 673-4, 679, 693).

The far-sighted wisdom of the directors of Masonite in keeping the manufacture of its patented products in its own plant, and the great advantage of this policy to the American public today, are further manifested by the consequent presence in this country of an immense plant which can in dramatically short periods of time turn out enormous quantities of hardboard for the use and housing of the military forces of the nation,—a good fortune for the country which would not have been possible if, instead of this great plant scientifically equipped and managed and located near the seaboard, there had been only a number of separate small plants scattered about the country and utterly inadequate to the emergency (R. 691).

The record shows that by a dramatic change in 1941, the capacity of the plant for hardboard was almost doubled overnight (R. 691). In December, 1941, the company made and shipped for defense purposes to the Federal Government over 12,000,000 feet of hardboard in two weeks.

(4) In this connection the Appellant attempts to place a new, unheard of and remarkable duty on a patentee. Running riot with its speculations, it says that had Masonite

granted such licenses to manufacture, it would have furnished the other appellees with (p. 72).

> "equipment for manufacture and experience in its use. * * * Moreover, as Masonite's patents expired, the other appellees, with the necessary equipment and with ample experience in manufacture, would have been fully prepared to engage in competition."

There is nothing to prevent appellees from completing their plants before the expiration of Masonite's patents if they still see fit so to do. The basic patent will expire on March 20, 1945. What the situation will be then, it is impossible to foretell. Certainly Masonite is under no duty to forego its present patent privileges in the *interim*, or actively and gratuitously to assist others in entering its own business.

POINT VI

Masonite's rights as patent owner also included the right to make licenses to vend and therein to fix prices at which the licensees might sell. This right it also exercised in the agreements.

Appellant's brief, in discussing the principal agreements prior to 1941, wholly overlooks their nature as also express "licenses under said letters patent to sell the said hardboard" (R. 217, par. 2).

(1) *Corpus Juris* (48 C. J. 262) defines a patent license as follows:

> "A license is any right to make, use or sell the patented invention which is less than an undivided part interest in the patent itself. A grant of the rights to make, use and sell will constitute an assignment of the patent; but any or all of these rights may be granted separately, and no more than a mere license will be given by a grant of the right to make, use or sell; * * *"

Walker on Patents (Deller's Edition), Section 366, says:

> "'This right to manufacture, the right to sell, and the right to use, are each substantive rights, and may be granted or conferred separately by the patentee.' [*Adams* v. *Burke*, 17 Wall. (84 U. S.) 453, 456, 21 L. Ed. 700 (1873); *Dorsey Rev. H. R. Co.* v. *Bradley Mfg. Co.*, 12 Blatchf. 202, Fed. Cas. No. 4,015.] Any one or two of these rights may be expressly conveyed by a patentee, while the other is expressly retained by him. [*Becton, Dickinson & Co.* v. *Eisele & Co.*, 86 F. (2d) 267, 269, C. C. A. 6 (1936).]"

The fundamental concept that anything short of a grant of the three rights combined, *i. e.*, to make, to use and to vend is a license and confers no title to or in the patent, has been reiterated down to the present day.

> *Ingalls* v. *Tice*, 14 Fed. 297;
> *Becton, Dickinson & Co.* v. *Eisele & Co.*, 86 F. (2d) 267;
> *Standard Button-Fastening Co.* v. *Ellis*, 159 Mass. 448;
> *General Motors Corporation* v. *Blackmore*, 53 F. (2d) 725;
> *Waterman* v. *Mackenzie*, 138 U. S. 252;
> See: Robinson on Patents, §§ 763, 806-808, 1224.

In the instant case, Masonite has, in effect, given to the other defendants on certain conditions a right to exercise its right *to sell* under its letters patent the articles embodying its patents. That this constitutes in law a license is evidenced by the definition in *DeForest Radio, Telephone and Telegraph Co.* v. *R. C. A.*, 9 F. (2d) 150. There the Court said (p. 151):

> "The term 'license' may here be defined as a permission to make, use and/or sell articles embodying the invention."

(2) A license to vend need not include the right to manufacture, although it usually does.

The right of the patentee to fix prices at which a patented article may be sold is bottomed on the exclusive right to "vend" and not on the right to manufacture. The patentee's right to set the prices of his licensees is for the purpose of maintaining his market.

An illustration may be given of the right to vend apart from the right to manufacture or use. Masonite has no patents in England. Assume that an English manufacturer of hardboard desired to sell that hardboard in this country. He could not do so without infringing Masonite's United States patents by a sale in this country. Yet Masonite could license an importer in New York to sell such English hardboard in the United States. Such a license would be a naked license to vend. Masonite could set the price at which sales so licensed might be made.

(3) Hence the argument in the Appellant's brief with respect to the alleged passing by Masonite of certain incidents and burdens to the other Appellees is irrelevant. Where the patentee licenses A to vend a patented article, it is clear beyond all dispute that he, the patentee, may set the prices and the terms upon which such vending shall be conducted. He is parting with a privilege which constitutes a right of property and with part of the statutory monopoly conferred upon him by law. The licensee to vend can, within the limitations of the license, do whatever the patentee could do in vending.

> *Bement* v. *National Harrow Co.*, 186 U. S. 70;
> *U. S.* v. *General Electric Co.*, 272 U. S. 476;
> *Indiana Manufacturing Co.* v. *Case Threshing Machine Co.*, 154 Fed. 365; certiorari denied 207 U. S. 603;
> *Straight Side Basket Corp.* v. *Webster Basket Co.*, 82 Fed. (2d) 245;

Rubber Tire Wheel Co. v. *Milwaukee Rubber Works Co.*, 154 F. 358;

See: McCormack, Restrictive Patent Licenses and Restraint of Trade, 31 Columbia Law Review 743.

POINT VII

The *del credere* agreements from 1933 to 1937 and again in 1941 are valid as a matter of law under *United States* v. *General Electric Company*, 272 U. S. 476, and numerous decisions which have followed and applied that decision.

The decision of this Court in the *General Electric Company* case was unanimous and was announced on November 23, 1926. It affirmed the judgment of the Ohio Federal Court dismissing after a trial the Attorney-General's bill charging violation of the Sherman Law.

We submit that that decision applies here *a fortiori*.

Its complete overshadowing of the present case is easily illustrated:

1. Before bringing the General Electric suit the Department of Justice had obtained a consent decree under the Anti-Trust Act against the General Electric Company and many other corporations enjoining them from fixing resale prices for purchasers of incandescent lamps. Only a few months after that decree the General Electric Company converted into "agents" and "licensees" for distribution all the innumerable merchants to whom it had been selling incandescent lamps under the enjoined resale price agreements. In its brief in the Supreme Court, the Department unsuccessfully argued as follows (p. 5):

> "The Government contends that the adoption, immediately after the injunction against the earlier resale price fixing plan, of a new plan by which the same results were accomplished, is strong evidence of a purpose to evade the law."

In the present case, the agreement of October 10, 1933, had no such compromising and suspect origin. The parties thereto had not been vendors and vendees but bitter litigants.

2. In size of business, patented hardboard bears to incandescent lamps about the same relation as the sardine does to the whale. According to Exhibit S-56 (R. 420), there were sold in 1940 $9,803,955.73 of hardboard, whereas the Supreme Court states that the total business in electric lights for 1921 was $68,300,000 (p. 481), which is but a small fraction of what the total for 1940 must have been. Of that business General Electric and Westinghouse did 85% (p. 481).

3. There an entire industry was involved, to wit, electric lights. For electric lights, there are no substitutes and no competitive products. None of their functions can be performed by other articles. On the other hand, in the present case, as set forth in Paragraph 19 of the Stipulation, there are in the industry of building materials numerous substitutes for hardboard, one or more of which "is capable of being put to each use for which hardboard in its various forms is suitable"; and hardboard itself is "substantially less than 1% of the amount in money of sales of building materials by retail building material dealers" (R. 178-9).

4. In the *General Electric* case, not one class, but four classes, of agreements were made, to wit, a form of agreement with the "large consumers readily reached by the Electric Company through its own salaried employees" (p. 481); a form of agreement with 400 of "the large distributors," *i. e.*, large wholesalers, called the B Agents (p. 483); a form of agreement with 21,000 retailers and dealers, called the A Agents (p. 483); and a form of agreement with the Westinghouse Company, licensing that gigantic concern to manufacture electric lamps on condi-

tion that it "adopt and maintain the same conditions of sale as observed by the Electric Company in the distribution of lamps manufactured by it" (p. 479).

Under the last mentioned agreement the Westinghouse Company in turn made B and A agreements with wholesalers and dealers identical with those made by the Electric Company (pp. 488-9; Rec. on Appeal, pp. 94, 110).

According to the Record on Appeal the first three agreements divided the total business covered by them about as follows: 22%, 37% and 41% (Rec. on Appeal, p. 92); and the corresponding division of the business which Westinghouse as licensee did through like agreements was 36%, 30% and 34% (p. 93).

5. In the *General Electric* case, the form of agreement with the A Agents begins on page 375 of the Record on Appeal. It contained the following provisions, the parallel of which to the present case is obvious.

The Manufacturer agreed to maintain "on consignment" with the Agent a stock of incandescent lamps, averaging a 30 to 60 days' supply, all of which "shall be and remain the property of the Manufacturer until the lamps are sold" (p. 375).

The Agent could sell only from the consigned stock in his custody, and then only to "consumers," and could distribute only to such other agents as the Manufacturer might authorize him "to serve" (p. 377).

The Manufacturer was to have the right at all times to inspect the stock held on consignment and to inspect the books and records of the Agent (pp. 376-7).

It was explicitly provided that (p. 376):

> "The Agent shall pay all expenses in the storage, cartage, transportation, handling, sale and distribution of lamps hereunder, and all expense incident thereto and to the accounting therefor and to the collection of accounts created."

Somewhat resembling Paragraph 15 of the agreement of October 10, 1933, there was the following reservation (p. 376):

> "The Agent shall return to the Manufacturer at any time directed by it, all or any part of the said consigned stock which has not been sold."

The A Agent agreed to render reports to the Manufacturer not later than the 7th day of every month, covering its sales and inventory; and also agreed to pay over to the Manufacturer, not later than the 7th day of every month (pp. 379, 380):

> "an amount equal to the total sales value, less the Agent's compensation provided for herein, of all of the Manufacturer's lamps sold hereunder during the preceding calendar month by this Agent and the agents served by it for which collections have been made; and an amount equal to the total sales value, less the compensation due this Agent, of all lamps sold by it and by those agents which it serves, to customers whose accounts covering such lamps are, on the first of the month, past due according to the Manufacturer's standard terms of payment. * * * The due and prompt payment to the Manufacturer for all sales made hereunder is guaranteed by this Agent."

In the same connection the A Agent further agreed (p. 380):

> "At the time for rendering each of its inventory reports, the Agent shall pay to the Manufacturer the value of all lamps lost or missing from or damaged in the aforesaid (consigned) stock, on the basis of list prices less this Agent's Basic Rate of Compensation."

Thus, the *del credere* features of the A agreement were far more drastic than any of the *del credere* features of any of the agreements in the present case.

The A agreement also allowed the Agent an additional discount of 5% in the event that the Agent punctually

made its required reports and payments not later than the 7th day of the next ensuing month (p. 381).

The A Agent agreed to sell only at the prices and on the terms fixed by the Manufacturer from time to time (p. 378).

The Manufacturer even reserved the right to change at will the rates or bases of compensation to the Agent (p. 382).

The term of the agency was one year, without provision for termination, except in case of the Agent's default or insolvency (pp. 375, 383).

6. In the *General Electric* case, the form of agreement with the B Agents (to-wit large wholesalers and distributors) begins on page 229 of the Record on Appeal.

This agreement permitted distribution only through other agents "whom this Agent may be given by the Manufacturer written notice of authority to serve," and sales only from the consigned stock and then only to any "consumers" within domestic territory. The agreement provided for a sliding scale of "compensation" to the B Agent, increasing as the annual volume of his sales exceeded certain graded minima. Otherwise, the general terms of the agreement were similar to those in the A agreement.

7. The license to the Westinghouse Electric & Manufacturing Company begins on page 111 of the Record on Appeal. It made the express condition that "the prices, terms and conditions of sale" should "be those fixed from time to time and followed by the Licensor in making its sales, and the Licensee agrees to maintain such prices, terms and conditions of sale as to such lamps" (p. 121). It also stipulated that the Licensee should not interfere with the distributional system set up by the Licensor in the A and B agreements aforesaid "by offering to allow or allowing the Licensee's agents greater compensation

than that allowed by the Licensor to its agents, * * * or by appointing as agents persons or companies of whom the Licensor affirmatively disapproves as being irresponsible representatives" (p. 122). It contained a cross-license to General Electric on all patents held by Westinghouse on incandescent lamps (p. 117).

The license reserved to the Licensor the exclusive right to manufacture and sell certain filaments (p. 116).

The license further provided that the *Licensor* (General Electric) would not itself sell (p. 125):

> "at prices lower or on terms and conditions more favorable to the purchaser than those established by the Licensor for sales by the Licensee."

The license expressly provided that the Licensee should not sell in the territory of the Chicago Edison Company or of the Boston Edison Company, except to those companies (p. 122). It expressly reserved to the Licensor the right to sell to four large companies on any terms it chose (p. 112).

It also expressly required the Licensee when selling or distributing through agents to use the form of contracts used by the Licensor for such sales by it (p. 121).

8. Thus, all the agreements with the A and B Agents restricted the field of their sales far more narrowly than did the agreements in the present case. The A and B Agents could sell only from *consigned* stock, and then only to ultimate "consumers", and could distribute only to such other Agents as the Manufacturer might specifically authorize each "to serve." Contrast this restriction with the freedom of Masonite's Agents to make large sales for delivery direct from Masonite's plants to agents' customers (see p. 40, *supra*).

Furthermore, the General Electric agreement with its Licensee expressly reserved certain territories in which, and customers to whom, the Licensee could not sell.

Thus in that case there were reservations to the Manufacturer itself of fields of sales far greater than the industrial field reserved to Masonite by the agreements in the present case.

9. The extent to which the plan in the *General Electric Company* case went far beyond any of the agreements in the present case is reflected in the following statement in the Department's brief (p. 33):

> "The so-called agents are wholesale and retail merchants, and the system is so devised that these lamps are passed through the wholesaler on to the retailer and thence to the consumer in precisely the same way that the same merchants handle other goods carried in stock by them. To close every gap an elaborate system is required."

In the present case the wholesalers and the retailers are not agents at all, and are under no restrictions as to resale to the consuming public.

10. The brief of the Department of Justice in the *General Electric Company* case made the following points (p. 32):

> "1. The contracts which constitute the system are in fact not genuine agency contracts, but the system was adopted as a mere device to evade the law and to enable defendants to fix the resale prices of their lamps.
>
> "2. The system used by defendants for the distribution of their lamps is unlawful, even if the contracts are contracts of agency.
>
> "3. The distribution system devised and operated by defendants is invalid, because it is not the usual and normal or reasonable way of distributing goods of the general character of those here in question."

11. There is no truth in Appellant's contention that whereas there is competition for business between Masonite

and its agents in the sale of hardboard there was none between General Electric Company and its agents in the sale of lamps.

In General Electric's brief in this Court, on page 10 thereof, is a chart showing the flow of lamps from the General Electric Company and the consequent competition for business. This chart summarizes the record as to the way lamps were handled by the General Electric Company and by its agents, and shows (1) that from General Electric's factories lamps went first to their sales offices, then to their branch sales offices, and from there to the general public and to purchasers under written contracts; (2) that both the general public and purchasers under written contracts bought direct from their principal sales office; (3) that when the agents were considered, the lamps went from the factory to the "B" agents, from them to the "A" agents, and from them to the general public and concerns buying under written contract. Likewise, the "B" agents also sold direct to both the general public and persons buying under written contract. Thus, obviously, there was a definite competition for business between the company's salesmen and its sales agents of exactly the character that is present in the instant case.

12. The *General Electric Company* case has been repeatedly cited, and there never has been a judicial suggestion of doubt as to its soundness.

Among the many citations of that case by this Court are *Carbice Corp.* v. *American Patents Development Corp.* 283 U. S. 27 (1931); *Standard Oil Co. (Indiana)* v. *United States,* 283 U. S. 163 (1931); *General Talking Pictures Corp.* v. *Western Electric Co.,* 304 U. S. 175 (1938); 305 U. S. 124 (1938); *Interstate Circuit, Inc.* v. *United States,* 306 U. S. 208 (1939); *Ethyl Gasoline Corp.* v. *United States,* 309 U. S. 436 (1940); *Morton Salt Co.* v. *G. S. Suppiger Co.,* 62 Sup. Ct. 402 (1942).

Parenthetically, it seems appropriate to mention that prior to this decision of the Supreme Court these General Electric contracts had already been upheld as valid agency contracts by the Circuit Court of Appeals for the Ninth Circuit in *General Electric Co.* v. *Brower*, 221 Fed. 597, and by the Missouri Court of Appeals in *General Electric Co.* v. *Commercial Electric Supply Co.*, 191 S. W. 1106. The reasoning in the opinions in those cases is also directly applicable here.

13. A decision almost on all fours with the facts of the instant case is one by District Judge Tuttle in *General Electric Co.* v. *Willey's Carbide Tool Co.*, 33 Fed. Supp. 969, 976. The discussion in the opinion in that case beginning at page 978 is directly applicable here. The opinion concludes:

> "The Court is therefore of the opinion that the plaintiff Carboloy Company, Inc., in its license agreements, agency agreements and price schedules has done no more than was reasonably and properly necessary to enable it to protect its efforts to make a profit from the manufacture and sale of the patented material."

POINT VIII

The decision in *United States* v. *General Electric Co.*, 272 U. S. 476, is sound in principle and should not be overruled.

(1) Apparently realizing the inherent difficulties in making any distinction favorable to the Appellant between the case at bar and *United States* v. *General Electric Co.*, 272 V. S. 476, the Appellant takes the position that the decision in that case should be overruled (pp. 99-108). The Appellant then implies the *non sequitur* that if that case is overruled the present judgment must be reversed.

This is sought to be accomplished by an oblique attack upon the basic principles underlying the law of agency. First, it is asserted that the concept of identity of principal and agent is a fiction created solely in aid of the establishment of rules for the "distribution of commercial risks and burdens arriving from private transactions." This "fiction," it is argued, cuts across other branches of the law and, therefore, sometimes produces results "not consistent with good sense." The final step in the argument achieves the desired result, namely, that when the fiction cuts across what is supposed to be policy of the anti-trust laws, the latter should prevail and the principles of agency should be wholly disregarded.

The argument is not original; it was made in the brief filed by the Government in the *General Electric* case where it was argued (pp. 46, 59-60):

> "*But the restraint results from the fixing of the price at which the article shall be resold. That is the circumstance which retards the flow of commerce;* and it is wholly immaterial whether the title to the article, when it is in course of transportation, is in the purchaser or the seller, *or remains in the seller till delivered to the consumer. Nor is it material by what kind of agreements and between whom the price of the article is fixed and maintained. The only material matters of inquiry are, is the article a part of interstate commerce, is its price fixed and maintained, and if so, is it done by agreements?*
>
> * * * * * *
>
> "Furthermore, *the Antitrust Act was designed to prevent the very condition here described.* * * * *The very contentions here made show that this so-called agency system is even more destructive of competition than the system of fixing resale prices.*" (Italics are from the original.)

But this Court rejected the Government's contentions, saying (p. 488):

> "We are of opinion, therefore, that there is nothing as a matter of principle, or in the authorities, which requires us to hold that genuine contracts of agency like those before us, however comprehensive as a mass or whole in their effect, are violations of the Anti-Trust Act."

(2) This Court's decision on this branch of the case followed ancient doctrines which constitute the very foundation of the individual's rights with respect to his own property. He can grant any part of his title to another; and he can prescribe when and how his property may be used by another. *United States* v. *Colgate & Co.*, 250 U. S. 300, 307 (1919); *Moore* v. *New York Cotton Exch.*, 270 U. S. [illegible] (1926). The limitation is that if he grants it away, he cannot continue to exercise dominion over it after title has fully passed without restraining trade. This is upon the theory that once title has passed and the article has reached the channels of trade, the public is entitled to the free play of the forces of competition without restriction. This principle is recognized in *Dr. Miles Medical Co.* v. *Park & Sons Co.*, 220 U. S. 373, 387; *U. S.* v. *United Shoe Mach. Co.*, 247 U. S. 32; and *Ethyl Gasoline Corp.* v. *U. S.*, 309 U. S. 436.*

(3) The rule applies with even greater force where the article involved has been manufactured under a patent. Thus, in *General Pictures Co.* v. *Electric Co.*, 304 U. S. 175, affirmed on reargument 305 U. S. 124 (1938), this Court

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* Mr. Justice Holmes, in his dissenting opinion in the *Dr. Miles Medical Company* case (*supra*), said, page 411:

> "If it should make the retail dealers also agents in law as well as in name and retain the title until the goods left their hands I cannot conceive that even the present enthusiasm for regulating the prices to be charged by other people would deny that the owner was acting within his rights."

upheld the right of the owner of a patent to impose a restriction limiting its licensee to the manufacture and sale of the patented article in certain distinct fields, and excluding him from the others.

(4) The Appellant would have this Court cast aside this well established and easily applied test and adopt instead a rule resting on uncertainty, speculation and confusion. Under the proposed rule, the ancient principle that an owner can act through an agent becomes shadowy and strangely shrunken, and the proprietary and constitutional right of an owner to fix the price at which his goods shall be sold is to depend in each case upon notions which may fluctuate from day to day as to its good or bad effect upon public interest and interstate commerce.

It is a well known fact that the practice of selling direct to the consumer through sales agents is widely indulged in by manufacturers throughout the United States. The practice is a logical development and has become an indispensible part of the complicated economic system of the country. Any rule which would subject these manufacturers to the peril of indictments for violation of the Sherman Act unless they granted to their agents complete authority to control sales prices and other conditions of sale would have catastrophic effects upon that system.

But the Appellant has a solution for this. It concedes in its brief (p. 99) that a trader might well be permitted to "control the price at which his servants or paid employees shall sell his own property", but argues that this right should not be recognized in connection with the principal-agent relationship. We submit that such a distinction would be completely chimerical and unsound, without logical basis and contrary to all decisions. No judicial precedent for such a revolutionary novelty is cited. It would in effect destroy the right of a manufacturer to sell his product directly to consumers unless he did so through "servants or paid employees", which

is often impossible as a practical matter. Only where an owner or a patent-holder had enormous capital could he secure the mass distribution necessary to mass production. Is the manufacturer to be prohibited from determining the prices and other terms of sale in all such cases?

In *Baran* v. *Goodyear Tire & Rubber Co.*, 256 Fed. 571, 572 (S. D. N. Y. 1919), Judge AUGUSTUS N. HAND rejected the proposition that the rules of agency should have a different application in anti-trust cases. He said:

> "The alleged combination or conspiracy between principal and agent, if obnoxious at law, must be so because what they have together done would have been illegal, if done by the principal alone."

In *Federal Trade Com.* v. *Curtis Publishing Co.*, 260 U. S. 568 (1923), it was charged that the publishing company had violated Section 3 of the Clayton Act and Section 5 of the Federal Trade Commission Act by means of contracts with its distributors which prohibited the "so-called" agents from dealing in the publications of competing publishers. The contracts (obviously identical) were with 1535 agents. Approximately 447 of the agents had previously been wholesale dealers in newspapers and magazines. Hence, the effect of the contracts was to close to competitors the most efficient and best established channels of distribution, channels which had been open before the exclusive contracts were made. But this Court held the contracts to be valid and lawful.

In *Virtue* v. *Creamery Package Co.*, 227 U. S. 8 (1913), it was held that the manufacturer of a patented article did not violate the Sherman Act by giving the exclusive sale thereof to one agent (p. 37). If an exclusive agency to one agent is not an unlawful restraint of trade, then we submit that it cannot be restraint of trade to appoint nine non-exclusive agents who will then compete among themselves for the business.

(5) Such a rule as the Appellant advocates would mean, in practical effect, that a manufacturer would be denied the right to select his own customers and choose his own channels of trade.

It would also mean the end of all possibility of mass production, and hence of low prices, except where the principal or the patentee had capital commensurate with the cost of establishing and maintaining a nation-wide system of distribution. It would also mean the end, except for the rich, of any ability to introduce a new product into a field of strongly entrenched products, such as the building-materials field (R. 184).

By the same token, the rule for which the Appellant contends would speedily defeat its own professed objective. It would strangle rather than promote free enterprise. It would tend to entrench established products backed by large capital. It would fix a great gulf between new products and the public. It would make for higher prices by increasing the cost of distribution and production. Let the Government obtain the power to dictate customers and agencies and the freedom of trade is dead.

As was said by the Circuit Court of Appeals for the Second Circuit in *Great Atlantic & Pacific Tea Co.* v. *Cream of Wheat Co.*, 227 Fed. 46, 49 (1915):

> "We have not yet reached the stage where the selection of a trader's customers is made for him by the Government."

In *Moore* v. *New York Cotton Exch.*, 270 U. S. 593 (1926), this Court said (p. 606):

> "It has long been settled by this Court that under such circumstances a trader or manufacturer engaged in a purely private business may freely exercise his independent discretion in respect of the persons with whom he will deal and to whom he will sell and refuse to sell."

(6) At page 106 of its brief the Appellant cites cases to establish the obvious proposition that this Court will

not permit individuals or corporations to circumvent the prohibitions of public statutes by subterfuge. A parallel truism would be that the Sherman Act should not be employed to circumvent established and vested rights of property and liberty, and should not become a subterfuge for the promotions of new social or economic philosophies.

POINT IX

Furthermore, the agreements made by Masonite with the other defendants in 1941 for the proper purpose of endeavoring to remove controversy with the Anti-Trust Division, are valid.

Those agreements have been found by the Trial Court, on ample evidence, to have been made in good faith, to be lawful in purpose and effect, and to represent the exclusive understanding between Masonite and the other Appellees at the time of the trial.

Both sides, by formal pleadings and again at the trial, expressly joined in asking an adjudication on the merits as to these agreements of 1941; and inasmuch as equity adjudicates as of the time of its decree, the Appellees are entitled to a ruling that these agreements constitute an additional reason why this judgment should be affirmed.

A

The Agreements of 1941

Under date of March 20, 1941, Masonite and the several other appellees entered into identical agreements which became effective on April 1, 1941. A copy thereof appears at R. 407-417 (Ex. 51 attached to the Stipulation of Facts).

Concerning these agreements, the Stipulation of Facts recites (R. 189):

"50. As of March 20, 1941, Masonite entered into new agreements with The Celotex Corporation, National Gypsum, Johns-Manville Sales, Armstrong, Wood Conversion, Insulite, Certain-teed, Flintkote, and Dant & Russell. These agreements are identical except as to signatures and dates and a copy thereof is submitted herewith, marked 'Exhibit S-51' and made a part hereof. As of the same date Masonite entered into supplemental agreements with The Celotex Corporation and Insulite. A copy of the supplemental agreement with The Celotex Corporation and a copy of the two supplemental agreements with Insulite, above referred to in this paragraph, are attached hereto and marked 'Exhibits S-52 and S-53A and B,' respectively. All of said agreements were executed about April 1, 1941, and are presently in force and effect."

B

The Supplemental Pleadings

These agreements were introduced into the case by supplemental answers by the several Appellees. (See page 1 of the Index to the Record.)

The supplemental answer of Masonite Corporation is typical and begins at R. 52. That supplemental answer alleges that on March 26, 1941, Masonite presented the form of this new agreement to the Attorney General of the United States, stating that it stood ready to make agreements in this form with the several other defendants; and that it and they solicited the views, criticisms or suggestions of the Attorney General as to the propriety thereof,—all without withdrawing or qualifying any portion of its original answer (R. 53, 54).

The Attorney General examined the proposed agreement; stated that Masonite and the other defendants "had a right to make any new agreement as to their respective businesses in accordance with law"; but refused to express any present opinion (R. 54).

The supplemental answer then continues (R. 54):

> "Thereupon it was agreed that a supplemental answer or answers embodying the new agreement could be served as a matter of course and without further notice; and that the Attorney General could serve and file as matter of course a supplemental pleading in rejoinder if he so desired."

Pursuant to this agreement with the Attorney General, the aforesaid supplemental answers of the respective defendants were served without objection. Concerning the agreements of 1941 they prayed (R. 55)

> "for judgment and determination by the court as to the complete lawfulness thereof, and for such effect in connection with the disposition and dismissal of the present suit as may be lawful."

The Department of Justice then served a reply to these supplemental answers, a copy of which begins at R. 164. In it no serious issue of fact was raised, but the charge was made that this agreement was entered into "for the purpose of carrying out and continuing the combination and conspiracy which is alleged in the bill of complaint" (R. 166). The prayer for relief was (R. 166)

> "that in addition to the relief prayed for in the bill of complaint the Court adjudge that the agreement between Masonite Corporation and the other defendants herein dated as of March 20, 1941, is an illegal combination and conspiracy to restrain and to monopolize trade and commerce in hardboard, and perpetually enjoin the defendants from observing or carrying out the said agreement in any respect and from executing any similar agreement."

Thus, both sides expressly requested an affirmative judicial adjudication as to the legality of the 1941 agreements, and a decree thereon in accordance with their respective views.

This request for an affirmative judgment was repeated as late as the summations by the Appellant (R. 475 *et seq.*) and by the Appellees (R. 777 *et seq.*). The Appellant even requested in its proposed findings an adverse finding and adjudication upon the 1941 agreements (R. 866).

C

The Finding and Conclusion of the Trial Court.

At the trial the Appellees proved the facts about the 1941 agreements in accordance with the allegations of their supplemental answers; and, upon abundant evidence, the Trial Court made the following Finding of Fact (R. 879):

> "27. After the present suit was started, an effort was made, after notification to the Government as set forth in the stipulations of fact herein, to remove from the agreements a number of provisions which had been criticized by the Government. This resulted in the preparation of entirely new and superseding agreements, which were executed separately by all of the defendants, dated March 20, 1941, but which actually became effective April 1, 1941, and which did not contain many of the provisions of the previous agreements to which the Government had made objection. These agreements were not intended to and did not change the fact of agency created by the earlier agreements and are now in full force and effect."

On the basis of this Finding and of the evidence, the Trial Court also drew the following Conclusion of Law (R. 884):

> "8. The agreements made as of April 1, 1941, between Masonite Corporation and the other defendants were lawfully made; are not violative of the Sherman Law or the Clayton Act; are binding and in force as between the parties thereto; and are lawfully before the court in this case."

D

The 1941 agreements are valid and the Trial Court properly complied with the request of both sides for an adjudication thereon.

(1) Executives of corporations doing an interstate business are constantly confronted with the conundrums of the Anti-Trust Laws. Their difficulties become the more pronounced and urgent when a suit by the Anti-Trust Division shows that it differs with their counsel as to the interpretation and application of those laws.

Everyone is aware that there are few if any statutes about which there have been more divergent opinions by judges and attorneys as to meaning, construction and application; and such a recent instance as *United States* v. *Hutcheson, et al.*, 85 Law Ed. (U. S.) 422, shows that the Anti-Trust Division may even differ with the Supreme Court.

It would seem to us, speaking with all respect, that the Government owes a duty of cooperation toward those who honestly seek it under such circumstances; and that such seeking should be commended and not construed as a confession of guilt.

Accordingly, the new agreement was executed; and the representatives of all the Appellees have testified either orally or by stipulation that no other agreement or understanding is extant; that it exclusively governs all business undertaken since it took effect; that the entire understanding between the respective parties is embodied therein; and that it is their unqualified intention to observe it in letter and in spirit and not to reinstate any preexisting agreement (R. 627-8, 631, 633, 636, 663, 668, 687, 691, 709, 720).

(2) The Appellant has failed, and indeed has been unable, to point to anything in the new agreement which departs in the slightest way from the familiar principles and provisions of common law agencies in business of

this kind or to show any provision thereof which violates any law, Anti-Trust or otherwise.

The argument that the new agreement must be illegal because it was made after the Anti-Trust Division had charged the prior agreements to be illegal, is a palpable *non sequitur*. Even if it be assumed (contrary to the fact) that the prior agreements had represented a mistake as to the law (as now interpreted), it would not follow that equity would allow the defendants opportunity for nothing but a whipping.

(3) During his summation, Mr. Cox, trial counsel for the Appellant, made certain important concessions about the 1941 agreements.

His first concession was this (R. 745, 748):

> "Now I want to say something about the later agreements, the 1941 agreements, because there is no doubt that they changed a great many of the incidents which I have just referred to as distinguishing this case from the General Electric case. * * * Now I grant that the agreement, as I said a moment ago, is much different, different in a number of respects, from the 1936 agreement."

His second concession was that the Appellant's objection to the 1941 agreements came down to the "price provision." To quote (R. 748-751):

> "The Court: Suppose they eliminated all questions of price entirely from this 1941 agreement?
>
> "Mr. Cox: I think if they eliminated all questions of price——
>
> "The Court: You would fade out of the picture?
>
> "Mr. Cox: I would fade out of the picture. * * *
>
> "Mr. Cox: That is the only point of difference between us, so far as I am concerned. * * *
>
> "That is the only part of the contract that we are really attacking, and we would be satisfied by way of a decree where the decree would simply eliminate those provisions in the contract. So far as we are concerned, it is not necessary to strike down the whole arrangement."

(4) No cases need be cited for the familiar principle that equity (unlike law) speaks as of the time of decree. In anti-trust cases themselves are to be found numerous instances where new agreements, revisions and abandonments, honestly made in the course of the suit, have been judicially approved and given effect in the ultimate decision and even been held ground for a dismissal of the suit.

The only injunctive power conferred by the Sherman Law is the power "to prevent and restrain violations" (Section 4). If there *are* no violations and none is threatened, there is nothing to enjoin. Punishment for violations (if any) wholly past and abandoned concerns only the penal provisions of the Law.

> *Standard Oil Co.* v. *U. S.*, 283 U. S. 163, 181;
> *United States* v. *U. S. Steel Corp.*, 251 U. S. 417, 444, *et seq.*;
> *Maple Flooring Ass'n* v. *United States*, 268 U. S. 563;
> *Industrial Ass'n* v. *United States*, 268 U. S. 64;
> *United States* v. *E. I. duPont de Nemours Co.*, 188 Fed. 127;
> *United States* v. *Kryptok Co.*, 11 F. (2) 874.

In the present instance the proof is conclusive that the prior agreements have been abandoned, that there is no intention to return thereto, and that the motive was a desire to remove friction with the Anti-Trust Division as far as could be done without surrender of basic rights and grave jeopardizing of the business. That is the uniform testimony of the responsible officers of all the Appellees (R. 627-8, 631, 633, 636, 663, 668, 687, 709, 720) and the finding of the Trial Court (R. 879).

But irrespective of motive, where the abandonment is complete and the intent to resume disproved, the ground for injunction has gone and the decree merely adjudicates the reasons for the ensuing dismissal. This is true in all equity cases, anti-trust and others:

California v. *San Pablo & Tulare R. R. Co.*, 149 U. S. 308, 314;
Commercial Cable Co. v. *Burleson*, 250 U. S. 360, 362;
Brownlow v. *Schwartz*, 261 U. S. 216;
Bracken v. *Securities and Exchange Commission*, 299 U. S. 504;
Lewis Publishing Co. v. *Wyman*, 228 U. S. 610;
Public Service Commission v. *Telephone Co.*, 147 Maryland 279, 128 Atl. 39;
Rosenthal v. *Shepard Broadcasting Service* (Mass.) 12 N. E. 2d, 819;
Brookings State Bank v. *Federal Reserve Bank*, 281 Fed. 222;
Securities and Exchange Commission v. *Otis & Co.*, 18 Fed. Supp. 100;
Withington v. *Roberts & Co.*, 22 Fed. Supp. 460.
See generally, 32 Corpus Juris, Injunctions, 75, 76, 359.

If the new agreement is valid, what else is there to adjudicate? What is there to enjoin? Why should the Court then concern itself with what has become academic?

CONCLUSION

The Judgment Below Should Be Affirmed

Dated, New York, April, 1942.

Respectfully submitted,

Charles H. Tuttle,
Louis Quarles,
Fletcher Lewis,
Herbert H. Dyke,
Thomas E. Kerwin,
John M. Coates,
Counsel for Appellee Masonite Corporation.

Appendix A

Analysis of Insulite's Patents

Patents Nos. 1,839,660, 2,030,625 and 2,134,659 relate to vermin-proofing boards with sulphur and like insecticide toxic agents. Two of these (Nos. 2,030,625 and 2,134,659) also claim the use of rollers in one stage of pressing the board. 2,134,659 was issued on the application which was in interference with a Masonite application for use of pressure rolls in making a board. No. 1,900,698 produces either a "thick heat-insulating body" somewhat bendable and "sound-proof" or one that "can be bent substantially without fracture." The process and products of both of these clearly follow in the footprints of Masonite's disclosure, and result in a hardboard that is within the scope of its claims. Nos. 1,900,699 and 2,036,466 revert to prior art methods by attempting to use as binders asphalt of various melting points, and No. 2,143,831 uses oil, wax, or soda ash, etc., as a binder. No. 1,905,222 seeks to produce somewhat fire-resistant qualities in the product by adding cattle hair, or other protein substances, such as silk, gelatine, glue or albumen. No. 1,908,699 is merely a specific form of press feeder, and No. 2,030,626 shows making boards with use of pressure rolls and calls for specific curing operations, as by applying the heat and adding tree tops and needles to the material.

This completes the list of those issued or applied for in 1935 and shows that all of these are later and relatively minor attempts to work with hard boards, but are each and every one of them dominated by Mason's patent aforesaid.

A consideration of the four later patents (all filed ten years or more after Mason's invention of patent 1,663,505), and licensed to Masonite by the agreement of February 1, 1938 (R. 384), made for the purpose *inter alia* of settling the interference, discloses the following:

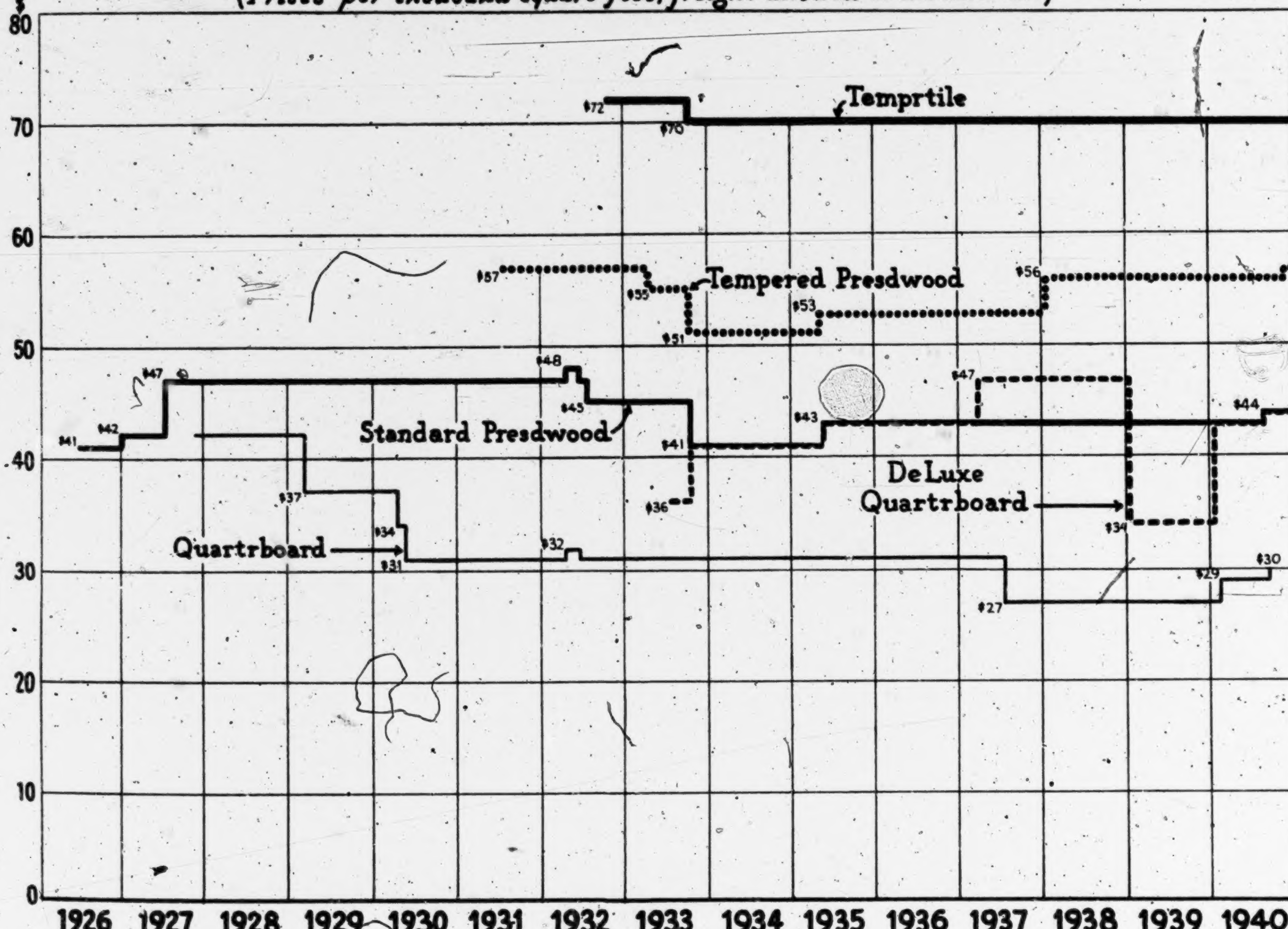
2,161,653 relates to a method and apparatus for making boards with rollers or "rotatable walled converging members." 2,161,655, hot presses the board between heated rolls provided with belts, and has claims as to specific temperatures which progressively decrease, and also to the addition of "a binder that adheres under heat and pressure." 2,173,391 is on another roller and belt mechanism for making boards. 2,208,511 presses a board between rolls in two pressure stages, an initial drying stage without pressure, ironing the surface of the board, then applying increased pressure, and finally chilling the board. It also covers the use of three per cent. of whale oil.

Of these 14 patents, 7 (including the patent 2,134,659 which was in the interference) relate to board making by means involving substitution of rolls and rolls and belts for hydraulic presses in hot pressing the boards.

Masonite's Exhibit SS-1

Trend of Dealer Carlot Prices in the Eastern Zone, 1926-1940

(Prices per thousand square feet, freight allowed to destination)



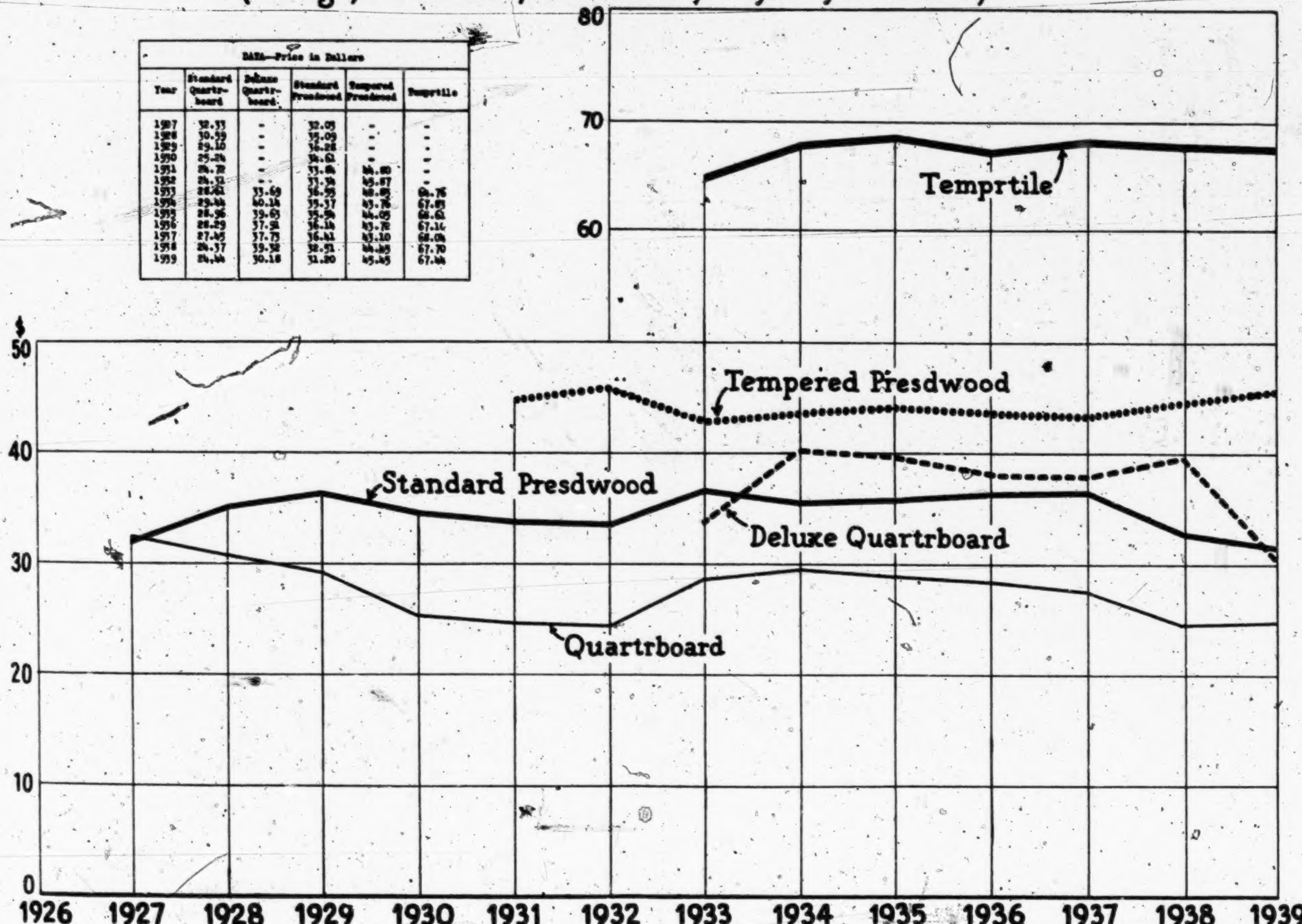
SS-1

Masonite's Exhibit SS-2

Trend of Average Prices Received from Domestic Hardboard Sales by Products, 1927-1939

(Average price received per thousand square feet of board sold)

DATA—Price in Dollars					
Year	Standard Quartr-board	Deluxe Quartr-board	Standard Presdwood	Tempered Presdwood	Temprtile
1927	32.33	-	32.03	-	-
1928	30.59	-	35.09	-	-
1929	29.10	-	36.28	-	-
1930	25.24	-	34.62	-	-
1931	24.72	-	33.84	44.80	-
1932	24.32	-	33.34	45.87	-
1933	28.42	33.69	36.55	42.65	64.76
1934	29.44	40.14	35.37	43.76	67.85
1935	28.56	39.63	35.54	44.05	68.62
1936	28.29	37.58	36.14	43.72	67.14
1937	27.45	37.73	36.41	43.10	68.04
1938	24.37	39.32	32.51	44.45	67.70
1939	24.44	30.18	31.20	45.45	67.44

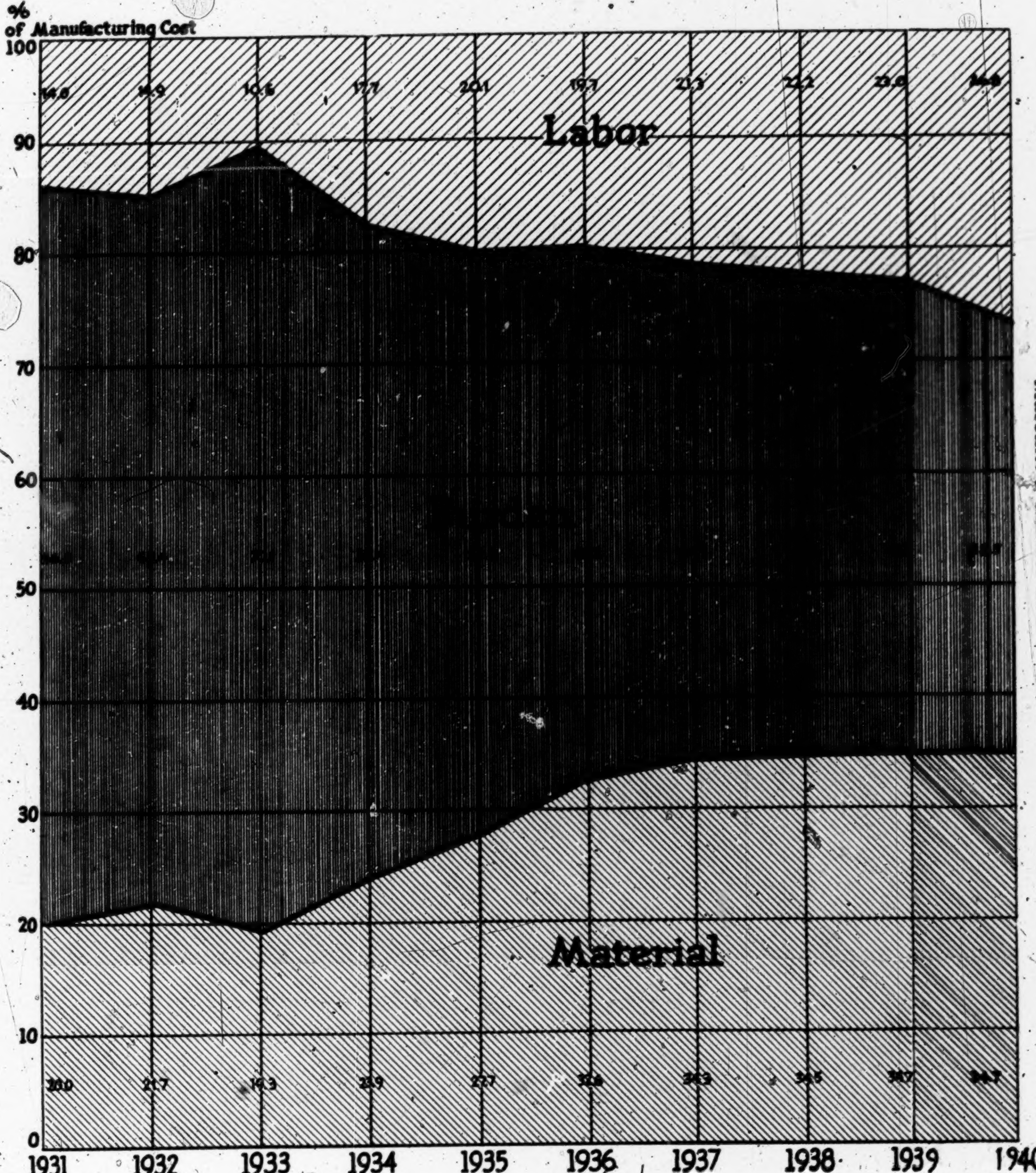


Note: Jectors included in above represent shipments adjusted to include the Jectors Commissions

SS-2

Masonite's Exhibit SS-8

Breakdown of Masonite's Manufacturing Costs, 1931-1940

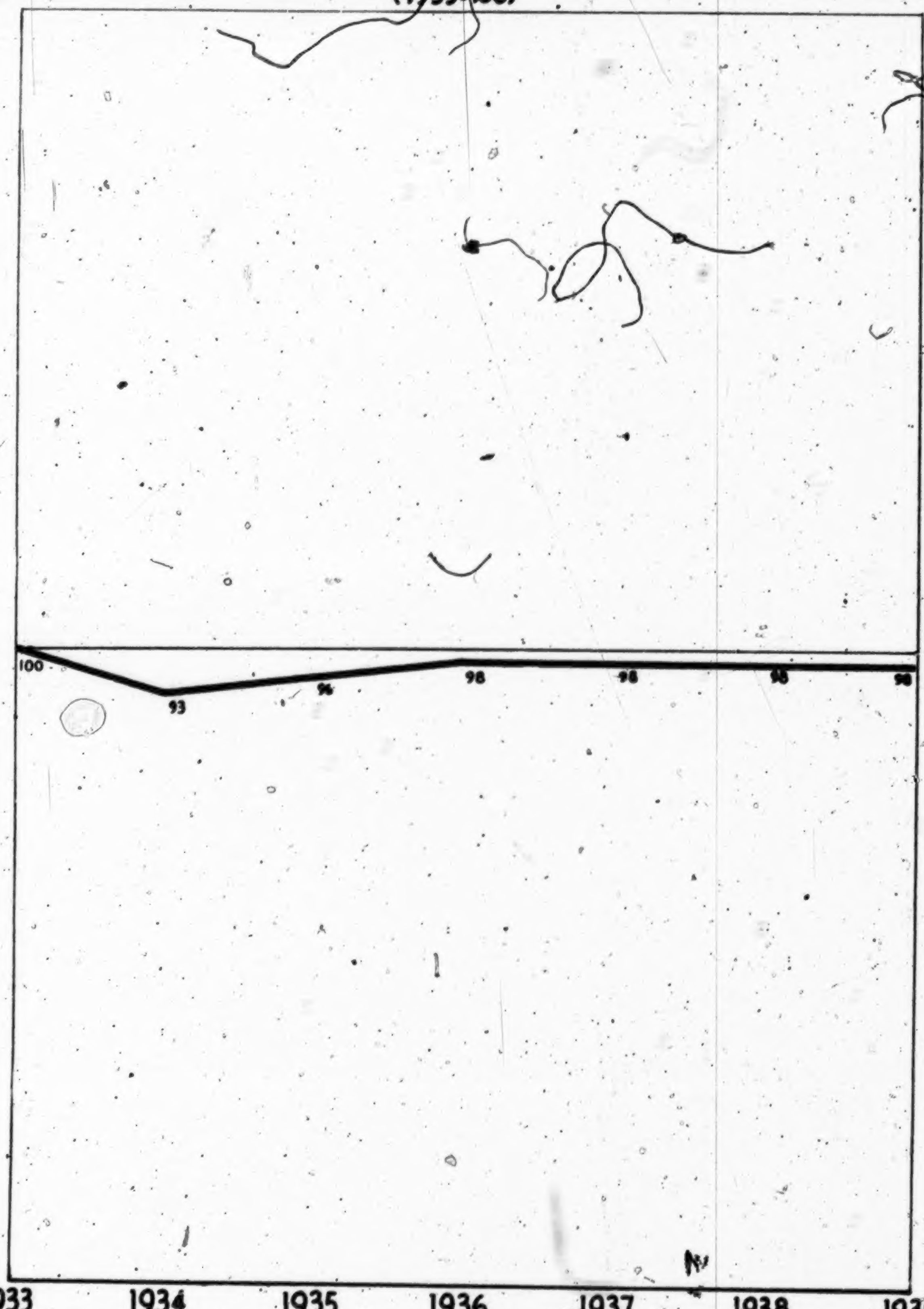


SS-8

Index of Monthly Average Dealer Carlot Prices of Standard Presdwood

(1933=100)

Eastern Zone Price, 1933-1939

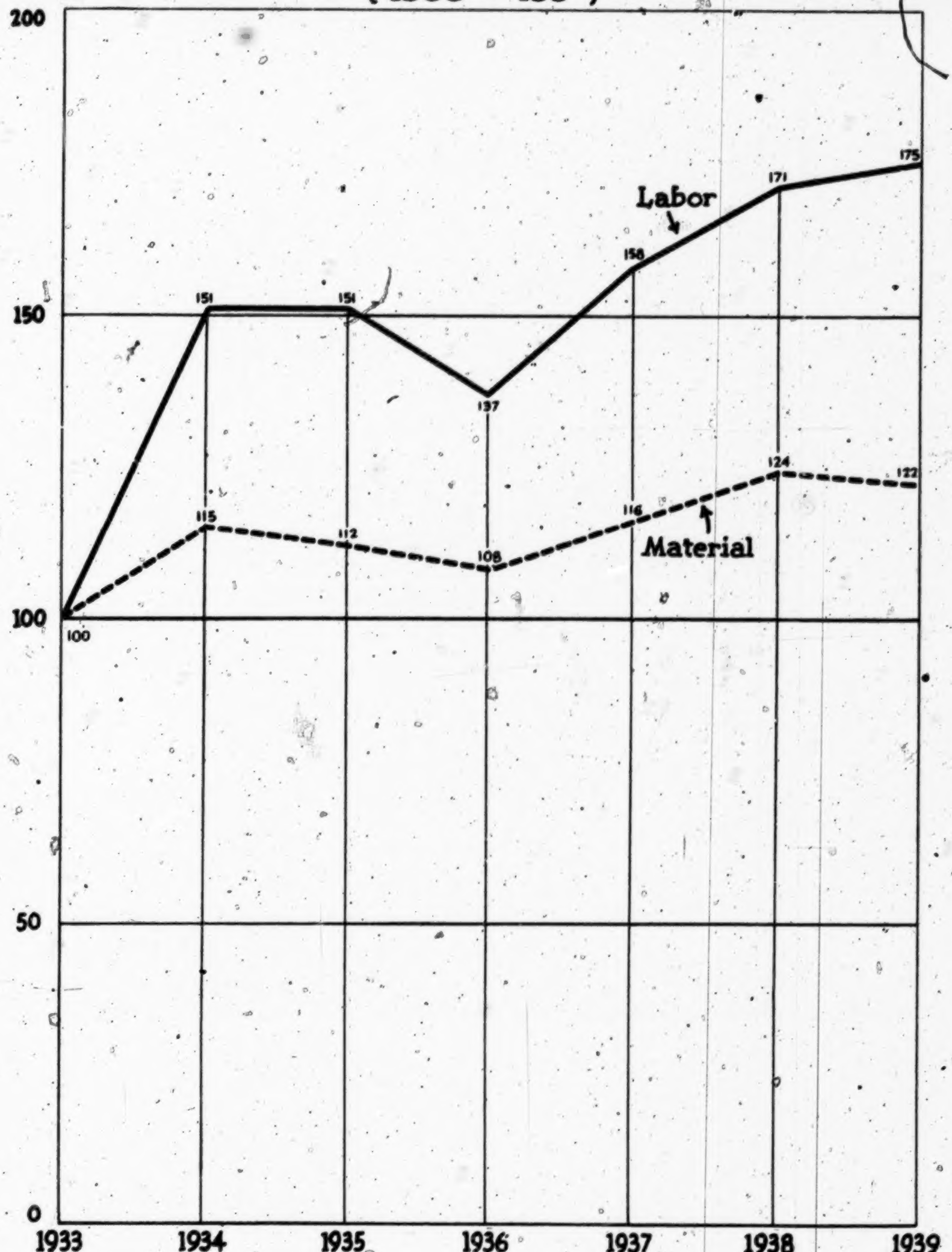


Masonite's Exhibit SS-9

SS-9

Trend of Material and of Labor Costs per Thousand Square Feet of Standard Presdwood Produced, 1933-1939

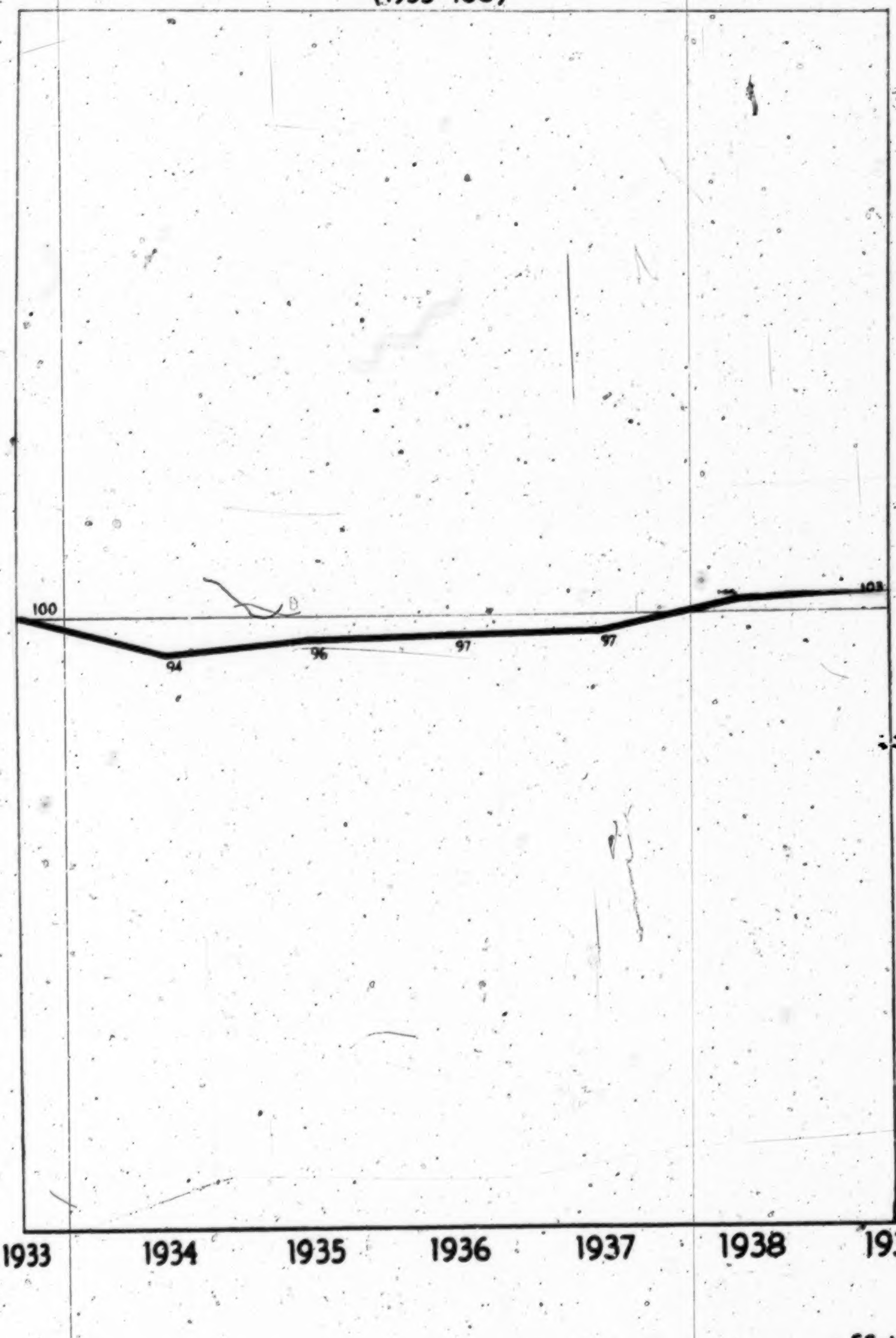
(1933 = 100)



Index of Monthly Average Dealer Carlot Prices of Tempered Presdwood

Eastern Zone Prices, 1933-1939

(1933-100)

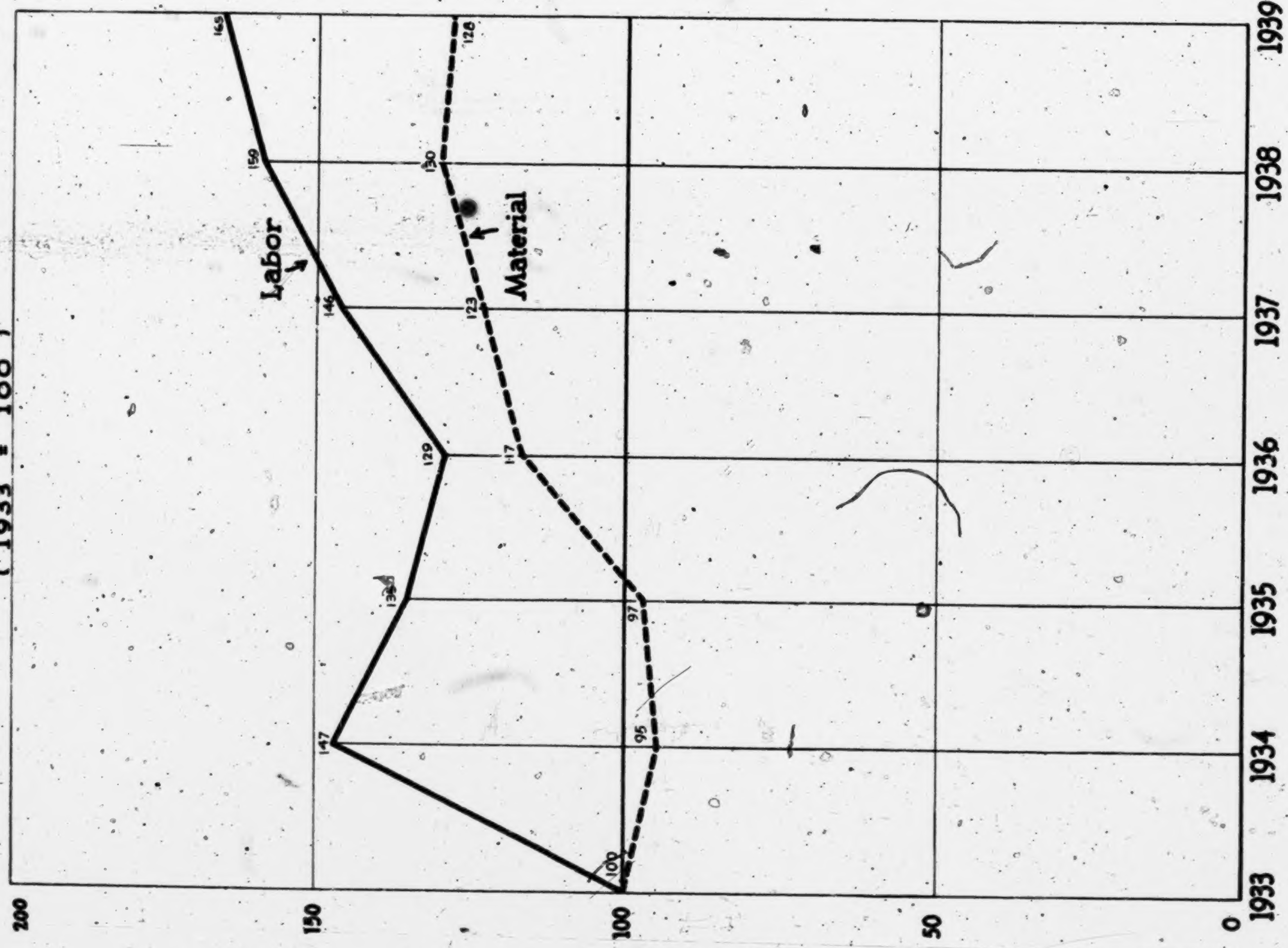


SS-11

Trend of Material and of Labor Costs

per Thousand Square Feet of Tempered Presdwood Produced, 1933-1939

(1933 = 100)



SS-12